BORDEN, INC.

1975 ANNUAL REPORT

Contents

Executive Offices
Borden, Inc.
277 Park Avenue
New York, New York 10017
Telephone No. (212) 573-4000

Annual Meeting
The Annual Meeting will be held on Wednesday, April 21, 1976, beginning at 11:00 A.M. in the Hunterdon Theatre, Church Street and Route 31, Flemington, New Jersey.

Independent Accountants
Price Waterhouse & Co.
Sixty Broad Street
New York, New York 10004

Common Stock Agencies
Transfer Agent
First National City Bank
111 Wall Street
New York, New York 10015

Registrar
Bankers Trust Company
16 Wall Street
New York, New York 10015

Dividend Disbursing Agent
First National City Bank
111 Wall Street
New York, New York 10015

Debenture Trustees
2⅞% and 4⅜% Sinking Fund Debentures
The Chase Manhattan Bank, N.A.
New York, New York 10017

5¾% Sinking Fund Debentures
Morgan Guaranty Trust Company of New York
New York, New York 10015

8½% Sinking Fund Debentures
Bank of America, N.T.&S.A.
San Francisco, California 94120

Exchange Listings
Common Stock (Ticker Symbol-BN)
New York Stock Exchange
The Common Stock is currently listed on foreign exchanges in Switzerland and Tokyo, Japan.

New York Stock Exchange
2⅞% Sinking Fund Debentures, due 1981
4⅜% Sinking Fund Debentures, due 1991
5¾% Sinking Fund Debentures, due 1997
8½% Sinking Fund Debentures, due 2004

Date and State of Incorporation
April 24, 1899-New Jersey

Borden, Inc. will furnish to any shareholder, without charge, a copy of its most recent annual report on Form 10-K, as filed with the United States Securities and Exchange Commission.

Written requests should be directed to:
Borden, Inc.
Attn. R. Tritsch
Secretary
277 Park Avenue
New York, New York 10017

1975 Financial Highlights

(In thousands except per share and percentage amounts)

	December 31 1975	December 31 1974	Percent Change
Operating Results (for the year)			
Net sales	$3,367,243	$3,264,502	+ 3.1
Income taxes	77,600	75,000	+ 3.5
Net income	92,884	83,845	+10.8
Net income per common share and equivalent—			
Primary	3.01	2.72	+10.7
Fully diluted	2.88	2.61	+10.3
Dividends per—Common share	1.30	1.25	+ 4.0
Preferred series A share	.65	.625	+ 4.0
Preferred series B share	1.32	1.32	
Total dividends	39,901	38,278	+ 4.2
Capital expenditures	104,079	100,243	+ 3.8
Financial Position (at year-end)			
Working capital	473,492	450,298	+ 5.2
Current ratio	2.2:1	2.0:1	
Shareholders' equity	863,560	810,431	+ 6.6
Equity per common share	28.05	26.35	+ 6.5
Common shares outstanding	30,526	30,342	+ 0.6

QUARTERLY SALES, EARNINGS, DIVIDENDS AND MARKET PRICE DATA

QUARTER	SALES 1975	SALES 1974	NET INCOME 1975	NET INCOME 1974	NET INCOME PER SHARE—PRIMARY 1975	NET INCOME PER SHARE—PRIMARY 1974	DIVIDENDS PAID ON COMMON STOCK* 1975	DIVIDENDS PAID ON COMMON STOCK* 1974	MARKET PRICE RANGE OF COMMON STOCK 1975	MARKET PRICE RANGE OF COMMON STOCK 1974
First	$ 795,881	$ 706,490	$18,844	$17,997	$ .61	$ .58	$ .325	$ .30	$24⅞–20½	$25¼–21
Second	876,615	839,677	26,491	24,968	.86	.81	.325	.30	26⅜–21½	24⅞–19¼
Third	821,108	834,679	25,520	22,101	.83	.72	.325	.325	24⅞–22⅛	20 –15¼
Fourth	873,639	883,656	22,029	18,779	.71	.61	.325	.325	28⅝–22¾	20¾–16½
	$3,367,243	$3,264,502	$92,884	$83,845	$3.01	$2.72	$1.30	$1.25		

*In 1975, dividends per share on Preferred Stock-Series A were $.16¼ in each quarter compared to $.15 in each of the first two quarters and $.16¼ in each of the last two quarters of 1974. Dividends on Preferred Stock-Series B were $.33 in each quarter during 1975 and 1974.

Message to Shareholders and Employees

In 1975, the Company had its best year in history; the nation, its deepest recession in 40 years. Our strong performance in a weak economy is of course gratifying to all in the organization who made it possible. At the same time, it would be shortsighted not to recognize that, over the long term, our continued growth must stem from a vigorous economy to which everyone contributes and in which everyone shares.

Our results in 1975 illustrate the importance of long-range planning. Decisions made and actions taken in recent years led to the balanced diversity that supported the Company in a most difficult year. We were able to ride the strongest currents of the economy. Early in the year, when food margins were being buffeted by rising costs, our fertilizer business was thriving; later, at a time fertilizer prices were softening, food margins showed a strong recovery.

We are heartened by the signs indicating an upturn in the nation's economy. The apparent recovery from deep recession is evidence that the national characteristics of resilience and confidence are undiminished by the experience of recent months. But within the Company the recession was a tempering experience, an occasion for reappraisal: not of long-term expectations, but of how best to achieve them.

Cheap and abundant energy is gone forever. This fact alone weighs heavily in decisions affecting our product mix: What kinds of products to make; where and how to make them; how to distribute them. Our Energy Task Force is already evaluating far-distant energy sources and their effect on the design of our manufacturing plants. Energy conservation has become a way of life within the organization.

Our experience in 1975 confirms a long-held view of management: that our growth is best assured by sharing the values and expectations of the public we serve, rather than by attempting to shape them. This means even greater selectivity in the development and introduction of new products, line extension and market expansion of already established products, and the dissemination of more useful consumer information in the advertising, promotion, and labeling of all products.

In 1975, we spent a record $116 million for advertising and promotion. We plan to increase the amount to more than $130 million for 1976. Our advertising has been highly effective because it so closely relates our products to the expectations of the buying public. Our advertising themes emphasize the "natural goodness," versatility, and relative economy of Borden products, characteristics that are being sought more than ever before by consumers. Our choice of prime-time television specials for full sponsorship is still another effort to associate the

Members of the Office of the Chairman, from right: Augustine R. Marusi, Chairman and Chief Executive Officer; Eugene J. Sullivan, President and Chief Operating Officer; Walter R. Olmstead, Vice Chairman.

Company with the values of so many of its customers. On April 15, 1976, Borden will sponsor a special two-hour showing of The Waltons Easter Program, and the following June 29 will sponsor a three-hour Bicentennial presentation of the musical film, "1776."

The year 1975 was also one of heightened social awareness within the organization. The percentage of women and racial minorities in higher-level job categories increased from a year earlier, even though total employment declined slightly. Purchases from minority vendors exceeded $11 million; in 1971, the first year of the purchasing program, the amount was $3.6 million. Also, more of the services provided by minority vendors were of a professional nature.

For an American company, as much as for the American people, the Bicentennial is a time of reassessment and recommitment. Borden has shared 118 of the nation's 200 years, and although our operations now extend worldwide we remain unmistakably the product and the beneficiary of the unique American system. As a result, we are a manifestation of the growth the nation has achieved. In furtherance of that growth Borden will commit in 1976 some $130 million in capital funds, approximately 25% more than in any other year. This commitment becomes the strongest expression possible of our confidence in the nation's unbounded opportunities, and of our ability to share in them.

Our associates join us in expressing to the men and women of the Borden organization, the members of the Board of Directors, and the shareholders our appreciation for their generous efforts and support during the year.

A. R. Marusi

Augustine R. Marusi
Chairman and
Chief Executive Officer

E. J. Sullivan

Eugene J. Sullivan
President and
Chief Operating Officer

W. R. Olmstead

Walter R. Olmstead
Vice Chairman

February 24, 1976

Board of Directors and Officers

BORDEN

BOARD OF DIRECTORS

COURTNEY C. BROWN
Dean Emeritus
Graduate School of Business
Columbia University

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Vice President
The Edna McConnell Clark Foundation
(Charitable foundation)

JAMES D. FINLEY
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J.P. Stevens & Co., Inc.
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AUGUSTINE R. MARUSI
Chairman and Chief Executive Officer

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Senior Vice President

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Vice Chairman

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Seaboard Coast Line Industries, Inc.
(Railroads)

EUGENE J. SULLIVAN
President and Chief Operating Officer

WILLIAM K. WESTWATER
President
Westwater Company
(A business management firm, Columbus, Ohio)

LAWRENCE A. WIEN
Senior member of law firm
Wien, Lane & Malkin

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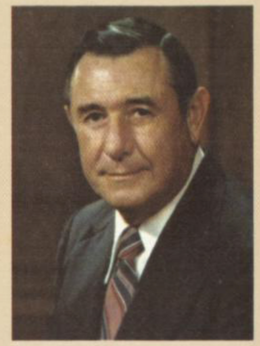
HAROLD W. COMFORT
Former President

ROY D. WOOSTER
Former Chairman


James D. Milligan


Max A. Minnig


John J. O'Connor


Raymond T. Pryor

PRINCIPAL OFFICERS

AUGUSTINE R. MARUSI
Chairman and Chief Executive Officer

WALTER R. OLMSTEAD
Vice Chairman

EUGENE J. SULLIVAN
President and Chief Operating Officer

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Vice President — Foods Division

MAX A. MINNIG
Vice President — Chemical Division

JOHN J. O'CONNOR
Vice President — International Division

RAYMOND T. PRYOR
Vice President — Dairy and Services Division

BERNARD NEMTZOW
Senior Vice President

FRED J. BOARD
Vice President — Employee Relations

JOHN B. CARNAHAN
Vice President — Distribution

JOHN V. LYNN
Vice President — Engineering

JOSEPH E. MADIGAN
Vice President and Treasurer

JOHN B. NIMONS
Vice President — Purchasing

LAWRENCE O. DOZA
General Controller

ROBERT G. TRITSCH
Secretary


Bernard Nemtzow


Fred J. Board

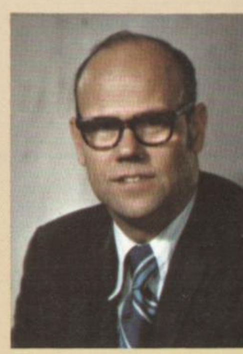

John B. Carnahan

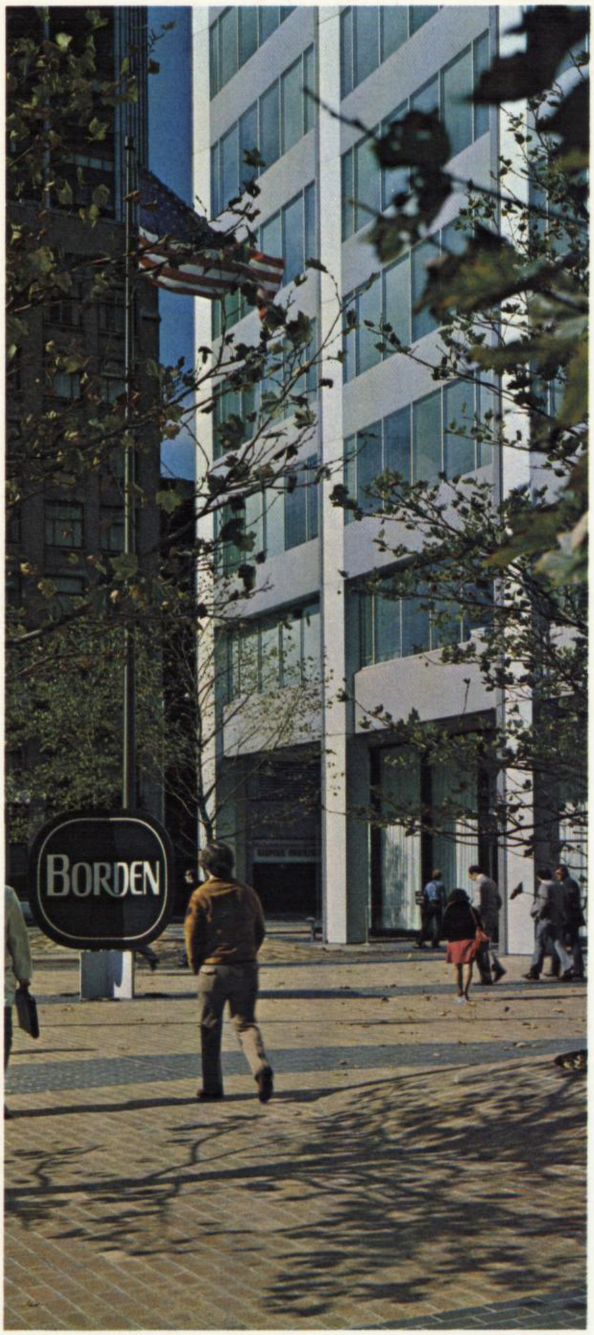

John V. Lynn


Joseph E. Madigan


John B. Nimons


Lawrence O. Doza


Robert G. Tritsch



The national administrative headquarters of Borden, Inc., Columbus, Ohio.

The Company

Borden, Inc. is primarily engaged in the purchase, manufacture, processing and distribution of a broad range of food, dairy and chemical products, both domestically and in foreign countries. The four major operating divisions of the Company are Borden Foods, Borden Dairy and Services, Borden Chemical and Borden Inc. International. Corporate departments provide certain centralized services for the corporation and all operating units.

BORDEN FOODS

The Foods Division markets a wider variety of food products than any other company. Its product line includes cheese and condensed milk, canned fruits and vegetables, snack foods, sugar and dehydrated foods.

No other food marketer offers the consumer a more impressive array of familiar names than those appearing under the Borden brand: Bama, Campfire, Colonial, Comstock, Country Store, Cracker Jack, Deran's, Drake's, Eagle Brand, Flavor House, Greenwood's, Liederkranz, Lite-line, None Such, Old London, ReaLemon, Sacramento, Snow's, Wise, and Wyler's. Eagle Brand sweetened condensed milk is the Company's oldest product, dating back to 1857.

Borden Foods' products are marketed directly, or through food brokers and distributors, to wholesalers, retail stores, food processors, institutions and governmental agencies throughout the United States.

BORDEN DAIRY AND SERVICES

The Dairy and Services Division is responsible for the Company's milk operations in 27 states and ice cream operations in 36 states and the District of Columbia.

It markets a full line of dairy products, including homogenized milk, buttermilk, chocolate drink, cottage cheese, creams, dips, fresh egg nog, sour cream, ice creams, frozen novelties, ice milks, and sherbets. It also markets a line of low-fat dairy products under the Lite-line brand, and a special line of milks suited to different life styles.

The Dairy and Services Division is also responsible for the Company's operations encompassing bottled water, bottled carbonated beverages, and manufactured milk based products for the industrial trade.

A fleet of Borden vehicles distributes these products to homes, stores, warehouses, restaurants, schools, hospitals, industrial establishments, and vending operations.

BORDEN CHEMICAL

The Chemical Division makes Borden one of the nation's largest and most diversified chemical companies. It is a major producer of agricultural chemicals, fertilizer, and animal feeds, and a leading supplier of synthetic adhesives to the plywood, particle board, and furniture industries.

It produces a number of basic petrochemicals: formaldehyde, methanol, acetic acid, urea, ammonia, vinyl chloride monomer, vinyl acetate monomer and polyvinyl chloride. It is the largest manufacturer of vinyl wallcovering and of transparent film used for in-store wrapping of meats and produce. The Division also makes printing inks, and resins, emulsions and latices used by the paint industry.

In addition, Borden Chemical is a leading marketer of products for the consumer: the Elmer's line of glues, Mystik tapes, Krylon spray paints, Lustro-ware plastic housewares, and Sterling school and stationery supplies. The Division is also responsible for the Company's fashion and retail store operations.

Borden Chemical products are sold throughout the United States to industrial users and, in the case of household items, to distributors, wholesalers, jobbers and dealers.

BORDEN INC. INTERNATIONAL

The International Division is responsible for the Company's manufacturing operations overseas—83 chemical and food processing plants in 27 countries. It also directs the marketing of all Borden products outside the United States, its export operations extending to more than 130 countries around the world.

Of the Division's approximately 7,900 employees, all but a score are citizens of the countries in which they work. Most products made by the Division are tailored to the needs and preferences of the local markets in which they are manufactured and sold. Its export operations, on the other hand, annually ship millions of dollars worth of American-made Borden products to markets around the world.

Raw materials, production considerations, pricing competition, governmental policy toward industry and foreign investment and other factors vary substantially from country to country. To the extent practicable, however, the Company's international distribution techniques parallel those used in the United States.

GENERAL BUSINESS ACTIVITIES AND SERVICES

Competition is intense for each of the operating divisions, which must compete with both national and local manufacturers. Borden's advertising and promotional activities are extensive, embracing all avenues of business communications, since its products are sold to thousands of customers of all types.

Borden purchases raw materials and supplies from a broad range of sources. Electricity, natural gas and fuel oil are the Company's principal energy sources. The challenge of meeting these energy needs is met by an Energy Task Force discussed elsewhere in the annual report.

Borden is continually developing and marketing new food, chemical and dairy products. Research and development activities are carried on at the Divisional level and are integrated with quality controls for existing product lines. Research and development expenditures were $13,600,000 in 1975 and $11,800,000 in 1974.

Borden is actively engaged in complying with environmental protection laws, as well as the various federal and state statutes and regulations relating to the production, processing, distribution, and labeling of its thousands of products. In this connection Borden incurred approximately $9,300,000 worth of capital expenditures during 1975.

Approximately one-half of Borden's domestic employees are covered by collective bargaining agreements, which are generally effective for periods of from one to three years. As of December 31, 1975, the Company employed approximately 42,100 persons, about 34,200 of whom are located in the United States.

Borden Foods

	1975	1974
Sales (in Millions)	$1,111.8	$1,125.5
% of Total Sales	33%	34%
Operating Income (in Millions)	$ 34.0	$ 60.3
% of Total Income from Operations	16%	28%

As reported by the company during the year, apart from sugar refining operations there was an improvement in the sales, operating income, and margins of Borden Foods in 1975. Total income of the Division, however, was significantly reduced by a problem in sugar refining inventory and pricing.

The problem occurred in the first half, and was caused by a precipitous drop in worldwide raw cane sugar prices, from a record $64.50 per hundredweight in November, 1974, to $14.25 per hundredweight by June 1975. The unrealistic price levels of late 1974 had induced a decline in sales of as much as 40% for the entire sugar industry in early 1975, and almost 20% for the year. The Division's sugar refining operations did return to profitable results in the second half.

The demand for food is highly inelastic, but not immune to the pressures of inflation and recession. These pressures, in combination probably unequaled in history, eased somewhat after the first quarter. Although tonnage sales for the year, other than sugar, were slightly below a year earlier, dollar sales were moderately higher, and with a recovery of margins, operating income improved substantially.

Wyler's presweetened powdered soft drink mixes were repositioned to attract consumers of bottled carbonated soft drinks, a much broader market. Above, foil pouches of Wyler's most popular flavor, lemonade, stream from a packaging line at the Northbrook, Ill., plant.

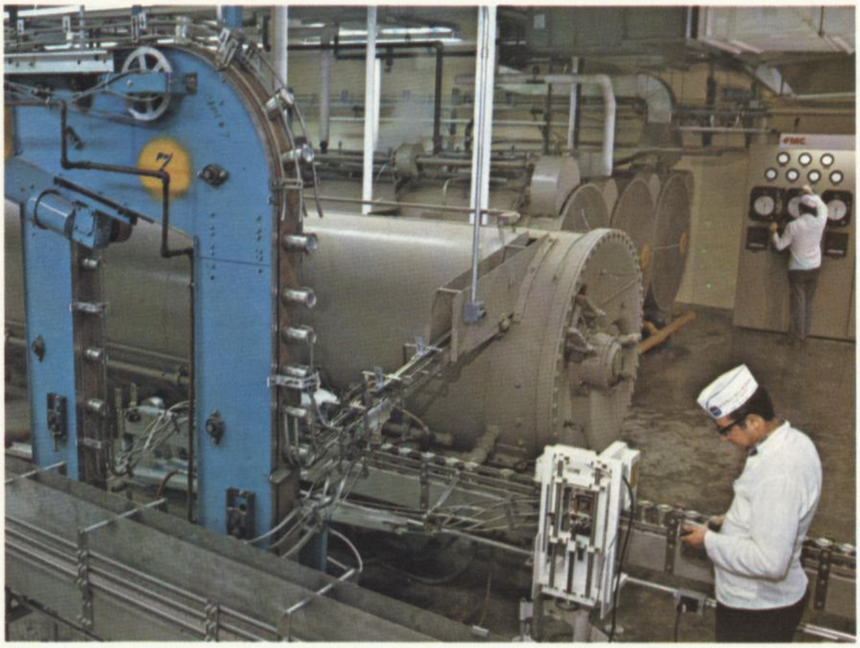
Two-part profit improvement program

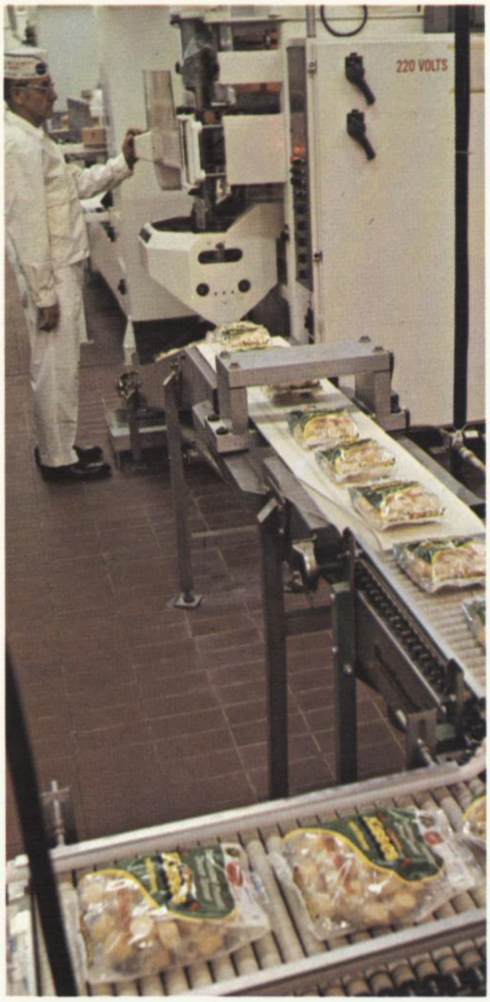
Faced late in 1974 with the prospects of soaring costs and a recession-fed decline in sales during 1975, the Division developed and carried out a two-part profit-improvement program, the effects of which reinforced the recovery that surfaced in the second quarter. One part of the program was a series of cost-cutting moves; the other, a stepped-up effort to increase market penetration and geographical distribution, supported by the most intensive advertising and promotion campaign in the Division's history.

The cost-cutting moves included paring energy usage per unit of output (coordinated with a corporate program), a consolidation of delivery and salesmen's routes to conserve fuel, more efficient use of equipment through extended operation and tighter maintenance, more closely monitored safety programs, and improvements in the distribution network. In addition, the Division took part in company-wide cost-cutting activities covering such areas as inventory control and accounts receivable, and benefited from the corporate capital investment program through an upgrading of its plants and equipment.

Major capital projects completed

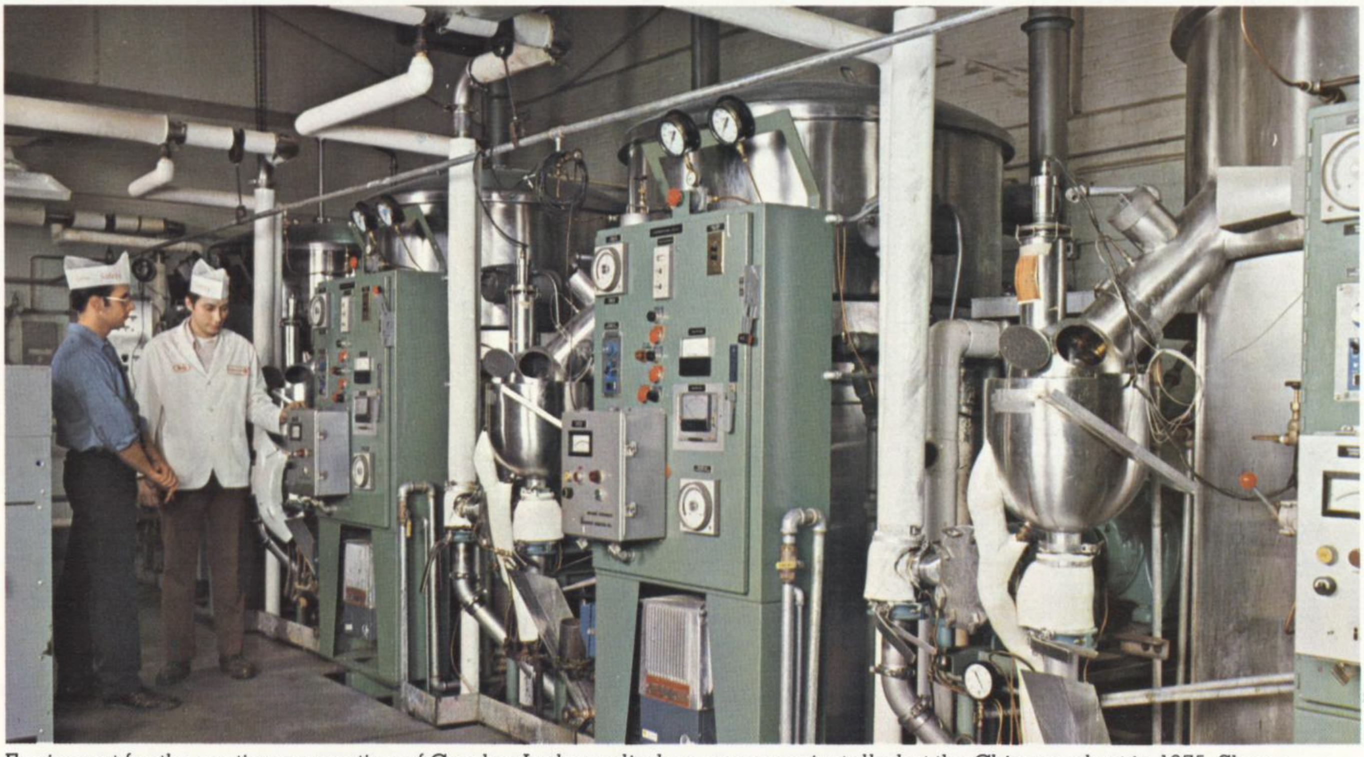
Among major capital projects completed by the Division during the year were modernization and expansion of the Snow seafood canning plant at Pine Point, Maine; installation of continuous cookers and conveyor lines at the Cracker Jack plant in Chicago; addition of cheese manufacturing equipment at Van Wert, Ohio, and construction of dock and warehousing facilities for raw sugar at St. Louis, Mo.





A major expansion and renovation of the Snow seafood canning plant at Pine Point, Maine, was completed during the year. The project included installation of continuous sterilizers (above), electronic sorting equipment, and new filling and packaging lines, and enlargement of the potato storage area. The sorting equipment is only the second such installation in the canning industry.

Packages of Cheez Kisses, bite-size nuggets of pasteurized process cheese spread wrapped in cellophane, roll off the production line at Van Wert, Ohio. Manufacturing facilities for the new "all-family, anytime" snack were added at Van Wert during the year to supplement the original facilities at Plymouth, Wisc.



Equipment for the continuous coating of Cracker Jack candied popcorn was installed at the Chicago plant in 1975. Shown above is a bank of syrup evaporators, from which syrup is fed by screw conveyors to be mixed with popped corn flowing continuously from an overhead system.

The marketing side of the profitability program produced results for almost every profit center. Two compatible strategies were developed, one to capitalize on the "natural goodness" of Division products and the other to reposition established items in broader food categories, to increase their appeal and usage. New products were introduced, and existing products "rolled out" to new marketing areas. Backing the effort was an intensive advertising and promotion campaign, centered on the mass media, principally television and radio.

Products sharing the "natural goodness" theme included Eagle Brand sweetened condensed milk; Bama jams, jellies and preserves; Wise potato chips; Cracker Jack candied popcorn, and cheese.

Wyler's presweetened powdered soft drink mixes were repositioned to attract consumers of bottled carbonated soft drinks, a much broader market. The appeal of ReaLemon reconstituted lemon juice among users of fresh lemon juice was heightened by the development of new recipe booklets and its appearance in a new package: a glass cruet for table use.

Cheez Kisses reach two-thirds of U.S. sales areas

Positioning, in a different concept, was the marketing thrust for other products. Development of a new use for cheese, as an "all-family, anytime" snack, was behind the explosive sales growth of Cheez Kisses, bite-size nuggets of pasteurized process cheese spread wrapped in cellophane. Cheez Kisses were first test-marketed in early 1973, and by 1975 year end sales areas had been expanded into two-thirds of the U.S. To handle the increased demand, production facilities for the snack were added at Van Wert, Ohio, to supplement the original facilities at Plymouth, Wisc.

Cheese for the weight-conscious is a fast-growing market, reflected in the sales of Lite-line individually wrapped slices. Gains by this item contributed materially to the record sales achieved by the full line of individually wrapped process cheese slices. Capitalizing on both factors—convenience and diet appeal—the Division began test marketing Pro-line Skim American slices, with "half the fat and all the flavor" of regular process cheese. To strongly identify the product with its principal market—the active young adult—tennis star Chris Evert appears in television advertising, and a photo of her in action on the court is on the package—the first use of a live personality on any Borden product.

Market "roll-out"—the extension of established regional Borden brands to new geographical areas—had a measurable effect on the Division's performance. As a supplement to newly developed products, roll-out has the advantages of presenting proved products to a new audience of consumers, without capital investment in new plant locations. Bama jams, jellies and preserves, originally available in 22 Southern and Southwestern states, moved into several new Northern areas, and by year-end were within reach of 51% of the U.S. population. Drake Bakeries improved the efficiency of its distribution and advertising by filling in several key markets within its 12-state region; in some instances, these markets had been pre-conditioned by earlier "spillover" advertising in adjoining areas.

Distribution of Sacramento tomato juice and Tomato Plus vegetable-based juice drink, previously limited chiefly to the East and West Coasts, was extended to several major new markets. In two cities where the Sacramento brand is not available, a new tomato beverage, Tru-Mato, was introduced on a test basis under the Borden brand.

Comstock pie fillings penetrated more deeply into Midwest and North Central markets, benefiting additionally from the popularity of home baking that is characteristic of these areas.

Long familiar to consumers in the Northeast, Snow's canned seafoods were introduced into new markets, following addition to the line in late 1974 of four new chowders. Snow's long-established New England style clam chowder, although a regional product, is already the most popular of its kind in the country. It was to accommodate this growing demand that the major expansion of the Snow plant in Maine was carried out. Significant processing changes that increase capacity and improve efficiency include the installation of continuous sterilizers and electronic sorting equipment. The latter is only the second such installation in the canning industry, and takes over an operation previously done by hand. Other improvements at the plant are new filling and packaging lines, and enlargement of the potato storage area.

New products

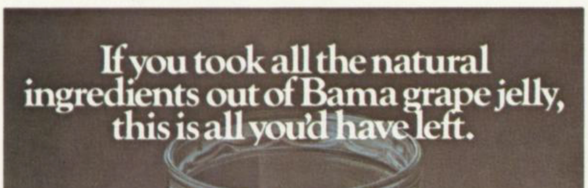
New products played a significant part in the Division's comprehensive marketing program, even though their impact on 1975 results was slight because of limited distribution for test purposes. Joining Tru-Mato and Skim-American cheese slices was an item totally new to the Borden line: Whip & Poof, a ready-to-whip, non-dairy topping in a can.

Several new items helped to round out the product lines within profit centers and broaden their sales bases: Wyler Bouillon Broth, eight individual servings of instant broth in beef and chicken flavors; Keg O'Nuts, oil-roasted nuts in a keg-shaped jar, under the Borden Flavor House brand; salt snacks from Wise/Old London, and sweet snacks from Drake's.

In substantially increasing its advertising and promotion expenditures, the Division allocated most of the additional funds to mass-media advertising, both to announce new-product introductions and to implement the marketing concept adopted for each product.

Heavy TV Schedule Promotes Borden Foods

Television was the focus of the largest advertising and promotion campaign ever conducted by the Foods Division. The medium was used for the introduction of new products and the roll-out of existing products to new markets, and was highly effective in conveying two major advertising themes—the "natural goodness" and the versatility of Borden products. Commercials featuring Borden recipes appeared for the first time on TV.



The "natural goodness" theme featured in television advertising was reinforced by print advertising in major magazines. Similar ads in newspapers supported the market-by-market roll-out of Bama jams and jellies, distribution of which reached to 51% of the U.S. population by year end.

Eagle Brand condensed milk, the company's original product, was advertised for the first time on television, with commercials demonstrating its varied uses in recipes. Sales responded strongly, prompting the Division to test TV recipe advertising of Comstock pie fillings.

Repositioning of Wyler soft drink mixes against carbonated bottled soft drinks was supported by a heavy national TV campaign built on the theme, "Walk on over to Wyler's."

Advertising for Bama jams, jellies and preserves featured an empty jar and the theme, "Without our natural ingredients we're nothing." "Naturally the best" was the advertising theme for Borden individually wrapped process cheese slices. A magazine and newspaper campaign pointing up the nutritional content of Lite-line cheese slices earned an award from Family Health magazine. The natural ingredients of Wise potato chips and Cracker Jack candied popcorn were featured in stepped-up advertising of these products.

The effectiveness of radio as an advertising medium was reflected in increased sales of Kava instant coffee, which sponsored a prominent national radio commentator. Radio was also the prime medium for the roll-out of Sacramento brand products.

In addition to their individual advertising programs, most products shared participation in the company's full sponsorship of "Grand Ole Opry at 50," a 90-minute TV special in prime time.

* * *

The outlook for the Division in 1976 is generally favorable. For the food industry as a whole, most agricultural commodities should be in plentiful supply, reflecting good crop harvests and reduced world demand. There now appears to be less likelihood of a resumption of the exaggerated raw sugar price fluctuations which characterized the period between the summer of 1974 and the spring of 1975. Milk production is likely to be stimulated by lower feed costs and higher government support prices, thereby increasing the supply available for manufactured uses such as cheese. With a moderately paced economic recovery, other cost components—packaging, labor, energy, distribution—should increase only moderately from 1975. The economic recovery, in turn, should be accompanied by a resumption of consumer confidence and of food-buying patterns approaching those of recent years.

The Division stands to benefit from this favorable climate, aided further by a broader product base and the continuing effects of recent cost-cutting measures. Contributing also will be the improved efficiency and capacity resulting from major capital projects to be carried out in 1976, among them a multi-million-dollar expansion at Plymouth, Wisc., to increase output of cheese slices; modernization of the Campfire marshmallow operations in Chicago, and additions to the potato chip operations at Berwick, Pa.

Borden Dairy and Services

	1975	1974
Sales (in Millions)	\$937.9	\$859.9
% of Total Sales	28%	26%
Operating Income (in Millions)	\$ 35.0	\$ 33.2
% of Total Income from Operations	16%	16%

The historic resilience of the dairy industry during periods of economic recession was reflected in the performance of Borden Dairy and Services in 1975.

Selling prices were moderately higher than in 1974, but their stability relative to other food prices prompted a sharp rise in unit sales, and this accounted for most of the gain in dollar volume.

Operating income benefited from a return to more normal margins, as cost increases—particularly for fuel and packaging materials—slowed from the dizzying pace of a year earlier and the rewards of an intensive economy effort within the Division took effect.

The use of "energy brigades" at processing and manufacturing plants, and the computerization of data on fleet fuel consumption and maintenance schedules, contributed to a measurable decline in energy usage per unit sold. Packaging costs were further reduced by the installation of additional machinery for in-plant manufacture of containers. Five ice cream plants were equipped to make round half-gallon ice cream cartons, and two milk plants equipped with blow-molding machines for plastic gallon bottles. The facilities also reduced incoming-freight and warehousing costs.

Ice cream sales gain

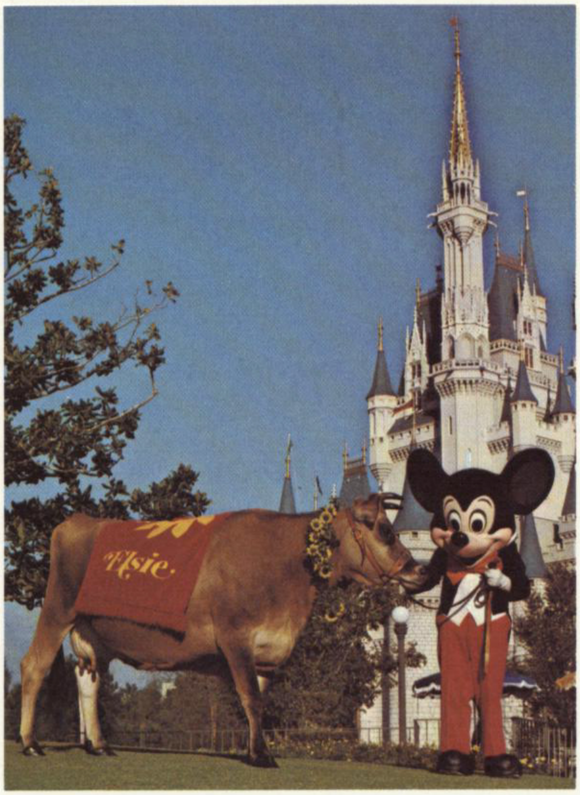
Ice cream sales registered the sharpest gain in years. A new marketing campaign, supported by new packaging and heavy advertising and promotion, helped to reposition Borden ice cream as a year-round snack in addition to its traditional place as a warm-weather dessert. The result was a pick-up in "off-season" sales, along with more efficient use of manufacturing and distribution facilities.

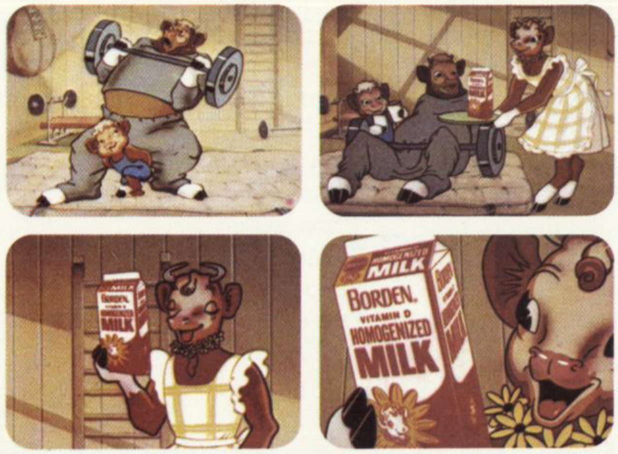
The recession was a factor in improved ice cream sales. Next to gelatin, ice cream is the lowest in cost per serving among a dozen of the most popular desserts.

Elsie the Cow, in her 38th year as a symbol of Borden dairy products, remained at the center of a stepped-up advertising and promotion campaign by the Division. The cartoon Elsie Family was revived in advertising for the first time in a quarter of a century, and appeared for the first time ever on television, in animated commercials for homogenized milk. The commercials continue the highly successful theme, "If it's Borden, it's got to be good," which has become one of the most familiar slogans in American business.

The live Elsie, outfitted with a new traveling boudoir, set a new record for personal appearances, visiting shopping centers, trade conventions and

Five additional ice cream plants were equipped to manufacture round half-gallon ice cream containers on premises. The resealable containers encourage at-home snacking of ice cream; the equipment reduces costs for packaging, incoming-freight, and warehousing.





After an absence of a quarter century, the cartoon Elsie Family was revived for advertising purposes, appearing for the first time on television in animated commercials for Borden homogenized milk.

Mickey Mouse greets Elsie the Cow on her visit to Walt Disney World in Florida. Borden has signed an agreement renewing its role as "official supplier" of milk and dairy products to the entertainment complex through 1981.

A dozen capital projects were carried out by the Dairy and Services Division during the year. New advertising signage accompanied a major expansion and modernization of the milk and ice cream plant at Milwaukee (above), which serves all of Wisconsin.

sales meetings in 19 cities, and marching in a parade at Walt Disney World in Florida at the start of the entertainment center's fifth season.

Borden has signed an agreement that continues its role as "official supplier" of milk and dairy products to Walt Disney World through 1981. Walt Disney World expects a record 12.5 million visitors in the year ending Sept. 30, 1976, and, based on past statistics, one in three will visit the Borden Ice Cream Parlor in the entertainment center's Magic Kingdom. The Parlor has been serving Borden ice cream cones at the rate of one every 3.6 seconds during open hours; total ice cream sales, including those from Borden carts located throughout the grounds, are at the rate of one item every 2.8 seconds. As many as 16,000 patrons have visited the Parlor in a single day.

Packaging redesigned for 1976

For 1976, most of the Division's packaging is being redesigned to carry out a light Bicentennial theme. All milk cartons and Borden brand ice cream packages will feature a premium offer: six Bicentennial glasses decorated with Elsie, Elmer and Beauregard in colorful Revolutionary costume, portraying the "Spirit of '76." The trio will also appear on Borden ice cream cartons. A costumed, drum-playing Elsie is featured on cottage cheese containers, and on cartons of a new fruit-flavored drink, Patriotic Punch. Special flavors of Borden ice cream are being developed for promotion throughout the year.

Nighttime network television will be used for the first time to advertise Lady Borden ice cream. The successful Elsie Family animated commercials for Borden homogenized milk will be continued. National magazine advertising will support Borden ice cream and cottage cheese.

During 1975, the Division expanded distribution of several products that had been introduced earlier on a limited basis: Old Fashioned Ice Cream, in round containers, and Sour Cream Dips in French, Onion, Green Chili, and Jalapena flavors. An established product of growing popularity, lowfat Dutch chocolate drink, was marketed in plastic gallon jugs.

The Divison's bottled water operations had a good year, exceeding the performance of the industry generally. The number of customers and unit and dollar sales increased from a year earlier. The marketing area for bottled water was expanded to the West Coast of Florida with the opening of a distribution center at Naples.

Early in 1976, the water operations began testing a five-gallon plastic bottle for residential and commercial use that is ten pounds lighter than the conventional glass bottle. Its lightness and non-fragility are expected to appeal to customers, at the same time reducing distribution costs and increasing trippage.

The Division's bottled soft drink operations had an excellent year, in contrast to the industry as a whole, achieving deeper penetration within its 12-county marketing area centered in Indianapolis, Ind. Sales were adversely affected in the first quarter, relative to a year earlier, by higher selling prices necessitated by sharply higher sugar costs, but rebounded sharply in the remainder of the year following price reductions. The counter-industry performance was attributable to an intensive "shelf management" program, in which supermarket display space is secured in proportion to the share of bottled soft drink volume contributed by the franchised brands sold by Borden.

The Division's Galloway-West unit, which manufactures milk-based products for the industrial trade, introduced Actilac, patented growth media for cheese starters. Actilac has several qualities absent from other media: it includes the presence of salts which encourage bacterial growth; it resists phage, an infection that destroys bacteria, and it produces a curd that improves the quality of cheese. Also, Actilac uses sweet whey as a base, rather than the more costly nonfat dry milk in existing growth media. The new product is available in four types, each especially suited to the manufacture of a particular type of cheese.

Major building projects and improvement of facilities were carried out by the Division during the year. A new ice cream distribution branch was constructed in downtown Latrobe, Pa., as part of an urban renewal project; its capacity is five times that of the facility it replaced. Expansion of ice cream operations included added refrigerated loading facilities for route trucks and over-the-road trailers at Columbus, Ohio; a new ice cream hardening room at Mason City, Iowa, and added equipment for making Elsie Stix novelties at Houston, Texas.

Facilities improved and expanded

In the milk operations, new warehouse and raw milk receiving facilities were constructed at Youngstown, Ohio; refrigerated milk storage capacity was increased 50% at Jackson, Miss., and 40% at Oklahoma City, Okla., and warehouse space was enlarged at both locations; a new sales branch was built at Ft. Worth, Texas, and new milk packaging machines were installed at Milwaukee, Wisc., and Columbus and Youngstown, Ohio.

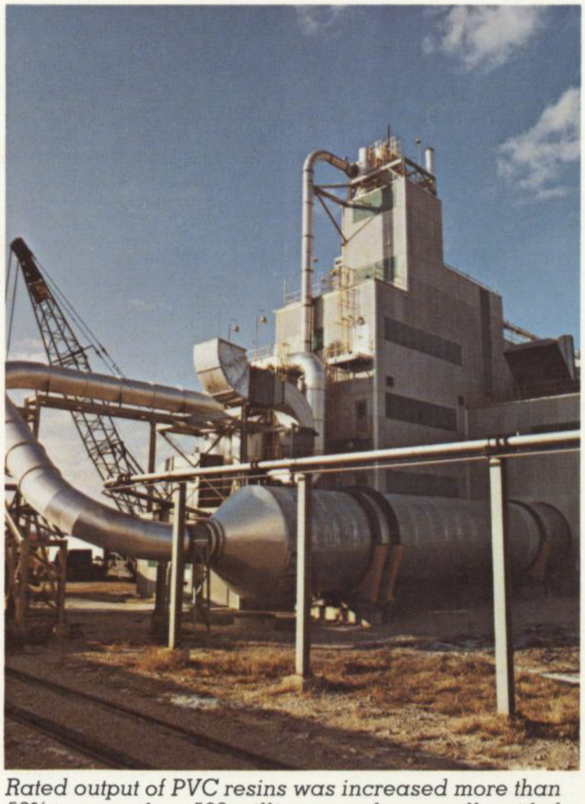
In September, the Division announced its withdrawal from the milk business in the Chicago area because of chronic industry oversupply. The milk processing plant at Woodstock, Ill., which supplied the market, was closed. The Division continues in the ice cream business in Chicago. The withdrawal will result in a cash-flow benefit from freed-up working capital, making funds available for investment in growth areas of the company's business, including dairy operations in other markets.

Borden Chemical

	1975	1974
Sales (in Millions)	$730.2	$701.5
% of Total Sales	22%	22%
Operating Income (in Millions)	$ 99.1	$ 80.3
% of Total Income from Operations	45%	38%

The wide diversity of its operations enabled Borden Chemical to set new highs in sales and operating income in spite of depressed conditions in several major industries that it serves. Led by fertilizer and petrochemical operations, operating income of the Division rose 23.4% from a year earlier on a 4.1% gain in sales.

The demand for fertilizer for the spring planting season was buoyed by good weather and a strong agricultural commodities market, and the Division's fertilizer sales soared to record levels for the period.



Rated output of PVC resins was increased more than 50% to more than 500 million pounds annually with the completion of expanded facilities at Illiopolis, Ill.

By the fall season, however, commodity prices had fallen well below year-earlier levels as demand for feed grains dropped by more than 25%. As a result, farmers cut back substantially on fertilizer usage toward year end. The surge in spring sales of fertilizer more than offset the later decline, however, and the Division's fertilizer results for the year were well above those of 1974.

Cost efficiencies arising from the highly integrated nature of the Division's fertilizer operations contributed to the improvement, as prices throughout the industry held reasonably firm even with the downturn in demand. The Division supplies its own needs of ammonia and urea for nitrogen-based fertilizers from a petrochemical complex in Louisiana. Phosphate for phosphate-based fertilizer comes from the Division's own mines in Florida. During the year, preparations began for the development of rich new reserves of phosphate rock at Big Four, near Lakeland, Fla., a project that will include construction of a new beneficiating plant to separate the phosphate from accompanying sand and clay. The facility is intended to supply the Division's needs of phosphate for fertilizer and animal-feed supplements for the foreseeable future.

Petrochemical operations have outstanding year

The petrochemical operations at Geismar, La., had an outstanding year. The operations produce such basic chemicals as ammonia, urea, methanol, and vinyl acetate monomer, which are supplied to other Borden Chemical facilities and also marketed to industrial customers. Exceptional demand for its products, chiefly ammonia and urea, was coupled with an extraordinary improvement in the productivity of the complex. As the result of an intensive "de-bottling" effort tied to the Division's cost-cutting program, the complex operated with the least downtime and highest through-put of any year in its 15-year history.

Ten new consumer products were introduced under the Elmer's brand during the year, and packaging for the carded line was completely redesigned.

Borden Lustro-ware entered the food freezer container market during the year, its first effort in a program to concentrate on items that appeal to a mass market and have high usage per household.

Elmer's adhesives and sealants, Mystik tapes, and Krylon spray paints and coatings are being demonstrated to major customers from this motor home refitted as a traveling exhibit.

The demand for thermoplastics dropped from the abnormally high level of a year earlier, reacting to the severe slump in the housing and automotive markets, two major outlets. The principal thermoplastic, PVC, is widely used by the housing industry in the form of vinyl flooring, siding, pipe, and wallcoverings, and by the automobile industry for vinyl upholstery, roofing, and headings.

Measured against any other year but 1974, when PVC resin was in such demand that customers were placed on allocation, sales remained vigorous, reflecting the continuous growth of the total PVC market. Because of this underlying support, and the pressure on costs of energy and hydrocarbon feedstocks, industry prices stayed generally firm throughout the year.

Work rules and monitoring ensure compliance

The imposition in April of new government standards for worker exposure to PVC and its raw material, vinyl chloride monomer, had no measurable effect on the Division's output. Strict work rules are being enforced, and plants are closely monitored, to ensure compliance. The Division fully expects also to meet the standards proposed under the Clean Air Act for vinyl chloride emissions from plants. The Division cooperated with the Environmental Protection Agency in the development of the standards, and invited EPA teams to visit two Borden facilities for test monitoring and inspection.

Another government agency, the Food and Drug Administration, issued preliminary regulations clearing the continued use of flexible vinyl film as a food wrap. By far the major share of food-grade PVC resins produced by the Division is used captively in the manufacture of its Resinite packaging film, which is the leading brand of transparent film for in-store wrapping of meats and produce. Sales of the product were maintained at the level of a year earlier, reflecting the pace of food sales generally.

Market for Resinite broadened

The market for Resinite was broadened with the introduction of two new films: one for the stretch-wrapping of palletized materials, which eliminates the need for taping, strapping, or heat sealing; the other, called Fresh Guard, for the delicatessen wrapping of cold cuts, in place of butcher's paper.

A major expansion of Resinite production facilities was completed during the year that added 1,800,000 pounds to annual capacity.

The coated fabric operations, in a move to capture a larger share of the total wallcovering market and reduce dependency on the cyclical industrial market, restructured its product mix to include lower-priced vinyl coated paper wallcoverings. Previously, all wallcoverings were fabric-backed, and sold through distributors. A pre-pasted wallcovering line was also introduced.

The change in strategy enables the Division to capitalize on the distribution economies afforded by plant locations on the East and West Coasts and in the Midwest. A major expansion of production facilities for wallcoverings was completed at Newark, Calif., and a new wallcoverings plant went into full production at North Andover, Mass. The expansions together increase annual capacity by more than 25 million yards.

Strong demand for cast vinyl products

The downturn in the market for calendered and coated vinyl products was eased by a strong demand for cast vinyl products produced by the Division's Fabric Leather operations. Cast vinyl is used by manufacturers of handbags, shoes, and luggage, and in the recession these items increased their share of market against more costly materials.

Rated output of PVC resins was increased more than 50% to more than 500 million pounds annually with the completion of expanded facilities at Illiopolis, Ill. During the year, construction began on a vinyl chloride monomer plant at Geismar. The facility will use ethylene, a derivative of oil refining, as the hydrocarbon feedstock. Completion is scheduled for late 1976.

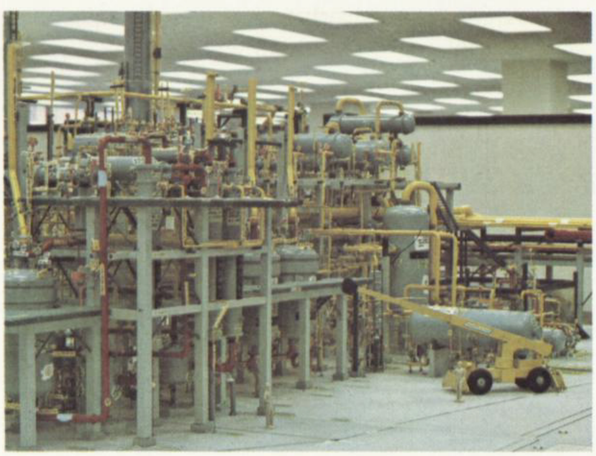
The recession economy adversely affected sales of thermosetting resins, used as adhesives by the plywood and furniture industries, by foundries, and by the packaging industry. As with thermoplastics, the degree of decline was distorted by comparison with the boom year of 1974, when industrial adhesives benefited from the exceptional demand for durable goods and packaging materials, and from firm markets in industrial construction and home renovation. Toward year end the Division experienced an improvement in the product mix of its thermosetting resins, with a consequent favorable effect on margins.

17th formaldehyde plant under construction

The basic ingredient of resin adhesives is formaldehyde, of which Borden is the world's leading producer. Borden Chemical is building its 17th formaldehyde plant, at Geismar, a 250-million-pound facility that will lift domestic capacity to 1.575 billion pounds per year and world-wide capacity to more than 2.2 billion pounds. During the year, the Division increased annual capacity for urea/formaldehyde resins by 60 million pounds at its Demopolis, Ala., plant.

Other industrial operations of the Division sustained their results at about year-earlier levels: printing inks, through deeper penetration of the commercial printing market and improved cus-

New Borden LUV inks dry by exposure to ultraviolet light, cure in less than a second, yield no solvent emissions, reduce energy requirements, and improve environmental work conditions. These characteristics make them the inks of choice for high-quality printing work such as playing cards.



A model of the new vinyl chloride monomer plant under construction at Geismar, La., scheduled for completion in late 1976. The facility will use ethylene, a derivative of oil refining, as the hydrocarbon feedstock.

tomer service; and industrial tapes, through emphasis on higher-margin, high-performance specialty products.

Chemical consumer products had an excellent year, with sales of the Elmer's line of household adhesives and sealants reaching an all-time high. During the year, ten new Elmer's products were introduced, bringing the number of items in the line to 25, in 58 sizes. The new products, each under the Elmer's brand, are Professional Carpenter's Wood Glue, Professional Contact Cement, Panel Fast panel adhesive, concrete bonder, white acrylic latex caulk, concrete crack sealer, blacktop crack sealer, tub and tile caulk, metal mender, and latex-base contact cement.

Packaging for the line of Mystik Tapes was revamped to provide a new and colorful look, and, in a change of marketing approach, the line's price structure was revised to eliminate most seasonal specials and enable offering lower year-round pricing. Krylon spray paints and coatings also underwent a revision in packaging construction and design.

Traveling exhibit demonstrates consumer products line

In a coordinated promotion of the Elmer's Mystik and Krylon lines—all products are sold through the same kinds of outlets—a motor home was refitted and equipped as a traveling exhibit to demonstrate to major customers the breadth of the Borden line.

Lustro-ware, toward year end, entered the food freezer container market, its first effort in a program to concentrate on items that appeal to a mass market and have high usage per household. The container, also usable for refrigerator storage, is aimed at the new but already huge market of home gardeners. Special equipment has been installed in Lustro-ware's Columbus, Ohio, plant to make the containers.

The Alex Colman line of women's sportswear and dresses enjoyed another outstanding year, running counter to a steep decline in the fashion industry generally. The performance was achieved by adhering, in spite of the recession, to the traditional concepts that have characterized Alex Colman to the trade and consumers: good design, versatility, and price positioning in the mid-range of women's quality apparel. To handle the growing volume of business, a new distribution center was opened at El Monte, in the Greater Los Angeles area. It supplements existing distribution facilities at Alex Colman headquarters in Los Angeles.

* * *

The diversity of its operations will enable Borden Chemical to respond along a wide front to the expected economic recovery in 1976. The markets for

Borden Chemical's Smith-Douglass Division is a major producer of inorganic feed phosphates, which are used by feed manufacturers in blending nutritionally balanced feeds for poultry, swine, and cattle. Above, a technician at Smith-Douglass's Nutritional Research Laboratory in Elgin, Ill., checks the weight of a baby chick being fed a ration containing Borden CDP.

thermoplastic and thermosetting resins should strengthen with the anticipated comebacks in the automotive and other durable goods industries, and an upswing in housing starts. The downturn in fertilizer in 1975 appears to have been temporary, and 1976 should be a reasonably good year. Most other industries served by the Division should benefit from a restoration of consumer confidence prompted by rising incomes and greater job security. Reinforcing the recovery in the industrial sector will be the steady growth of the consumer products market which over the years has been notably free of cyclical changes.

As its own supplier of many raw-material requirements, the Division not only controls availability but also directly obtains any cost benefits generated by improved efficiency of the manufacturing and distribution processes. These benefits, added to savings produced by other cost-cutting measures at the operating and administrative levels, will have a favorable effect on margins.

One major uncertainty is petroleum; its availability and price are beyond the chemical industry's control, and it is the industry's principal source of energy and feedstocks. If supplies and prices remain close to 1975 levels, the Division's internal economies and marketing efforts should produce continued moderate growth.

Borden Inc. International

	1975	1974
Sales (in Millions)	$587.4	$577.6
% of Total Sales	17%	18%
Operating Income (in Millions)	$ 50.2	$ 38.9
% of Total Income from Operations	23%	18%

The International Division achieved record results again in 1975 as operating income increased 29.1% from a year earlier on a gain of 1.7% in sales.

Virtually every sector of the Division set new highs, the exceptions being the Philippine and Australian chemical operations, whose products are directed primarily to the housing industry. Major contributors to the improvement were the food and chemical operations in Brazil, the dairy and food operations in Canada, whole milk powder operations worldwide, and export.

Latin America—Borden Latin America had record results during 1975, with all major affiliates turning in excellent performances.

Brazilian demand for macaroni, spaghetti and noodles continued strong and the Borden food company in Brazil expanded its capacity to keep up with the market growth. Several new warehouses were opened, resulting in an expansion of marketing area and a reduction in distribution expense. A new "home made" noodle product was successfully introduced, and plans for the introduction of non-pasta food lines based on Borden production and marketing know-how will be completed and implemented in 1976. Operations in Puerto Rico and Panama continued their substantial growth, with sales surpassing all prior levels. In Panama, new facilities have been installed for the local packaging of a number of our food products.

The Borden chemical company in Brazil increased its formaldehyde and resin capacity to meet record demand. Methanol production was also substantially increased by a re-design of equipment and the utilization of by-product hydrogen gas from a source close to the plant in Cubatao, near Santos. Plans for still further increases in methanol production have been completed and construction will begin in 1976. Chemical consumer products have become a major segment of business and new products are continually evaluated and introduced. These products offer an excellent entry into other market areas and development will accelerate in 1976.

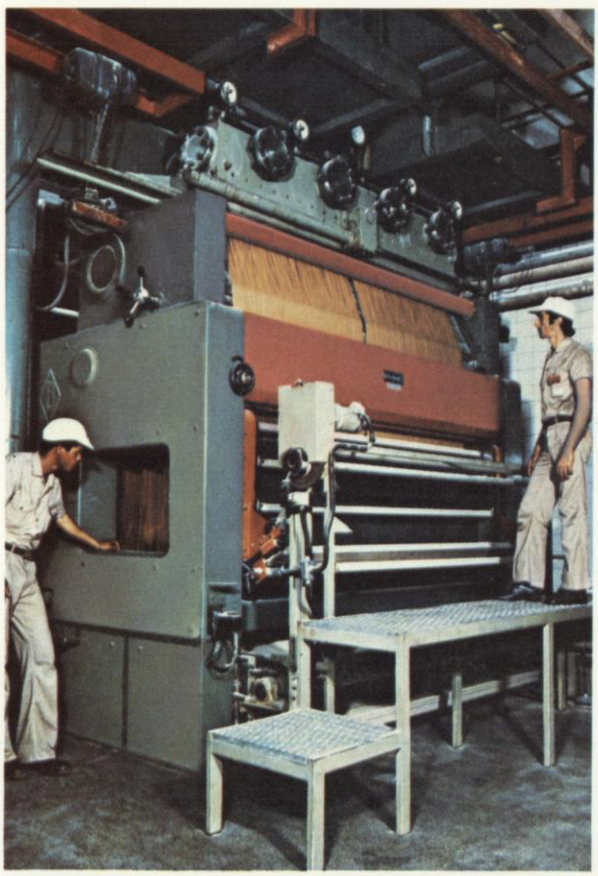
Borden operations in Colombia, Mexico, and Argentina also had a good year, bolstered by higher exports to other Latin and Central American markets. As a result of increased internal demand for synthetic resins, production facilities were completed in Uruguay in 1975 and will be completed in Ecuador in late 1976. Borden chemical production capacity in Latin America is expanding rapidly to meet anticipated growth in this important area.

Canada—Results of Borden Canada exceeded the record levels of a year earlier in all major areas.

Dairy sales were strong, particularly in ice cream where volume was up substantially due to improved packaging, greater flavor selection, expanded distribution, and weather conditions that extended the selling season. Further consolidation of fluid milk facilities also contributed to better dairy results.

A new retail ice cream concept, put into test in 1975, is expected to give faster customer service and increase sales.

A giant display outside a shopping center in Sao Paulo, Brazil, calls attention to Cera Cascolac, a floor wax introduced during the year by the Borden chemical affiliate in Brazil. It is a companion product to the established Cascolac, a floor varnish.


The Borden food company in Sao Paulo, Brazil, installed its fifth and sixth pasta manufacturing machines during the year to keep up with growing demand. The world's largest standard pasta machines, each has a capacity of more than 1,000 tons of spaghetti, macaroni and noodles per month. The Borden affiliate is the largest pasta company in the Western Hemisphere.

Food products sold extremely well and several items in test markets were expanded into national distribution. Television continued to be a prime advertising medium; Borden Canada used it to increase sales of ReaLemon, Snow's Clam Chowder and Cremelle, a non-dairy coffee lightener. Production facilities were consolidated during the year to eliminate low volume products.

The Canadian chemical company also had an excellent year in spite of seriously curtailed demand in the building materials industry and strikes in certain key paper industries. Production was more than doubled at the North Bay, Ontario, resin plant in 1975; capital investments are in progress to consolidate the two Vancouver chemical plants and increase production at Edmonton, Alberta. A new dry-strength paper resin was developed which has good potential in the paper recycling process.

Europe—The European economies were difficult to assess in 1975. Inflation generally was out of control in most of the major countries during a good part of the year while productivity was down and unemployment was at the highest level since the end of World War II. Despite these problems and generally softening currency exchange rates, Borden Europe achieved record results in 1975. The Borden chemical affiliate in the United Kingdom expanded its production of Resinite packaging film and installed a semi-calender to produce high-quality sheeting for thermoformed packaging. Borden also entered the thermoform packaging business in Holland, where it expects to eventually duplicate the UK success. The company's chemical operations in France and Norway maintained their positions as market leaders in the supply of Resinite film for food and other packaging.

The Borden bakery in West Germany increased its share of the German industrial cake and bread markets with expansion into more specialized, high value type products. A new hamburger bun line was added to meet changing German eating habits. The company's famous Christmas Stollen again led all other brands.

The Borden food affiliate in Spain accelerated its growth by introducing 17 new items during the year. A new mechanized warehouse was inaugurated at the factory near Barcelona to allow faster, more efficient distribution of the affiliate's diversified product lines.

Worldwide sales of famous KLIM brand whole milk powder set a new record in 1975. Instant KLIM, which was introduced in 1973—first from Australia and later from Ireland—has shown dynamic sales growth, alongside that of regular KLIM, which continues to register healthy increases. The future of KLIM is exceptionally bright owing to expansion in present markets and moves into new and developing areas.

The Borden can manufacturing plant in Athy, Ireland, reached operational status during 1975

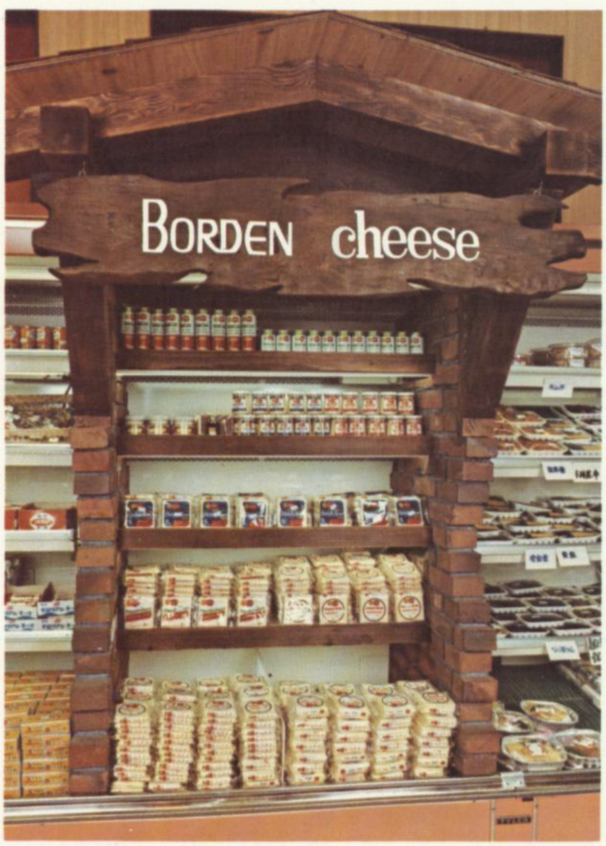
Borden President Eugene J. Sullivan (left) and Justin Keating, Minister for Industry and Commerce of the Republic of Ireland, tour the new Borden can manufacturing plant in Athy, County Kildare, following formal dedication ceremonies in September.

The launching of the Silver Trident, a 112-foot motor yacht protected by over 5,000 square feet of Borden nylon sheathing applied to the hull, deck,and coach roof by sheathing specialists from the Borden chemical company in the United Kingdom.

Lithographed cans for Instant KLIM roll down the production line at the Athy plant. The facility manufactures cans for use by the Borden milk powder plant in Mallow, County Cork, and also markets them to other manufacturers in Ireland. The powder plant previously imported formed cans.

Borden Canada redesigned the packaging of many of its food products to feature the Borden logo and at the same time meet the labeling preferences of the Canadian market. Cremelle is the brand name used in Canada for the product sold as Cremora in the U.S.

The Christmas Stollen made by the Borden bakery in West Germany again led all other brands in sales during the 1975 season.



Sales of Borden cheeses in Japan increased substantially from a year earlier, aided by the successful introduction of a number of new products and a concerted marketing effort that included special in-store displays, such as this one in a Tokyo supermarket.

and can now service the complete needs of the Borden whole milk powder plant in Mallow, Ireland, as well as other major can users throughout Ireland. Immediate further expansion of this facility is anticipated.

Borden ReaLemon reconstituted lemon juice was successfully launched in the United Kingdom at mid year, followed by a successful introduction in Holland, as part of a continuing program to market the product throughout most of Europe.

Asia—In Japan, sales of Borden cheeses increased substantially from a year earlier, aided by the successful introduction of a number of new products despite heavy competition. The joint venture with Meiji Milk Products Co., Ltd. is progressing exceptionally well and its future looks very bright.

Lady Borden ice cream continued its phenomenal sales growth; the product is without question the favorite premium ice cream throughout Japan. Borden sherbet was introduced in the latter part of 1975, and was very favorably received by the trade and consumers.

Resinite film sales reached record levels and additional manufacturing facilities will shortly be required.

The Australian and Philippine chemical operations, which are heavily oriented to the sale of industrial resins for the plywood and particleboard industries, were adversely affected by the worldwide slowdown in the housing industry. The new Borden resin plant in Malaysia became fully operational late in 1975 and sales are at encouraging levels.

Export—This group, which is responsible for the overseas marketing of all U.S.-made Borden products, had an excellent year, with results above the record levels of 1974. Export sales provide employment for a significant part of the company's domestic workforce, as well as contributing to the United States' balance of payments. Current U.S. tax incentives, such as DISC (Domestic International Sales Corporation), materially affect the viability of a sizeable amount of export sales, in that they equalize benefits offered by other exporting countries which compete with the United States.

* * *

Another good year is anticipated for the company's overseas operations in 1976. European markets should soon reflect the improving economic conditions foreseen for the United States. The outlook for more demand for building-related products will favorably affect the Australian, Philippine, and Malaysian operations. Some basic chemical prices were at low levels at the start of 1976, but are expected to firm up later in the year. Overall, demand appears to be increasing, prices in 1976 should be generally stable, and productivity should improve as higher sales levels are achieved.

Borden Corporate Activities

ENERGY TASK FORCE—The Energy Task Force in 1975 shifted its emphasis to long-range energy programming, after two years largely occupied in dealing with the "crisis" aspects of energy shortages. The changeover coincided with Congressional efforts to establish a national energy policy.

Conservation efforts during the year thus included such projects as a survey which identified locations in each division where opportunities for energy-cost reductions are the greatest; the development of standards which will allow comparative evaluations of energy conservation performance at different locations, and evaluation of future energy sources for the purpose of guiding new construction projects.

More fleet vehicles were brought into a computer data system designed to provide management with more complete and readily available information on fuel economy and maintenance costs.

These efforts, together with measures taken in previous years, have given the company the capability to deal with both long- and short-range energy problems. Energy costs can now be separated from other overhead costs in operations and specifically evaluated. Their identification has been of much value in preparing capital and operating budgets.

The Task Force also provides guidance to operations in meeting multiple and complex regulations on energy. It monitors the issuance of all government regulations on energy, evaluates proposed regulations for their impact on the company, and, when appropriate, makes recommendations to federal, state and local agencies in their formulation of energy policies.

DISTRIBUTION—Distribution costs continued to rise in 1975. Transportation companies, reacting to higher labor, fuel and equipment expenses, raised their prices substantially. Energy costs and higher wages were the primary factors causing increased storage and handling charges. Overseas shipments were further complicated by port congestion, limited availability of containers, and work stoppages.

The conversion from Borden-operated warehouses to public warehouses for Foods Division distribution was completed. Borden perishable grocery products are now distributed to customers from 18 public warehouses; the Borden dry grocery line, from 109 public warehouses, down from 258 as recently as 1972. Customer service is being moni-

Borden returned to prime-time television with full sponsorship of the 90-minute special, "The Grand Ole Opry at 50," aired in November on the ABC network. The company has scheduled two more prime-time specials for full sponsorship during 1976: "The Waltons Easter Story," in April, and the musical film, "1776," in June.

tored on a daily basis from all Borden Foods public distribution warehouses.

To reduce distribution costs, the number and volume of direct shipments to customers from manufacturing locations were increased. More shipments were made to customers and consignment warehouses via the company's over-the-road tractor-trailer private fleet. The consolidated shipment program with other food manufacturers from public warehouses was expanded so that customer service could be improved.

The Chemical Division increased its use of water transportation by establishing additional marine distribution terminals for several high-volume key raw materials.

Expanded computer technologies are being used to control costs and improve customer service. Reports from REACT Computer Car Control System are being carefully monitored in the Chemical Division to control demurrage charges, transit raw material inventories, and tank car utilization. A computerized system for pre-auditing freight bills has been established in the Chemical Division. This system also provides data which are required for the financial control of transportation charges and for distribution analysis.

Computerized maintenance and fuel cost programs were implemented at locations where major automotive fleets are based. Automobile expenses are accumulated and computerized information reports on fuel usage, repairs and warranties are forwarded on a monthly basis to management.

A customized Order Entry/Data Base System is being designed for the Foods Division. This system, when completed, will provide timely reports to executive, sales, accounting, distribution and production managements.

SAFETY—The company's safety record in 1975 showed a marked improvement from 1974, a year in which there was also substantial progress.

The number of employee injuries and the number of vehicle accidents were reduced by approximately 20%, adding to employee well-being as well as considerably cutting costs. Property losses were reduced substantially from the 1974 amount. Liability claims (motor vehicle, workers' compensation, and general liability) increased during the year, but much of the rise reflected higher benefits mandated by state workers' compensation laws, as well as the effects of inflation on settlements.

A corporate-wide program of industrial hygiene was undertaken during the year. Its purpose is to enable operations to meet the increasingly stringent safety goals mandated by management and various government agencies, by systematically identifying environmental factors that may cause safety or health problems, evaluating the factors, and where necessary prescribing methods to eliminate or control them. The program, which incorporates procedures of long standing, includes such activities as the monitoring of work areas, training of employees in the fundamentals of industrial hygiene, coordinated medical surveillance, centralized record-keeping of toxic raw materials, and preparation of workable safety guidelines.

The company's safety performance in 1975 reflected the results of initiatives taken in previous years. A policy of long-range safety planning, with the emphasis on prevention, is being implemented through design reviews of all major equipment, in conjunction with the corporate engineering department; "hazard analyses" of entire production processes from raw material to finished product, and repeated training of supervisors and employees in the latest safety techniques and equipment.

SOCIAL RESPONSIBILITY—The company's efforts in responding to the needs of a changing society continued in 1975.

Each Borden location now has an affirmative action plan tailored to the type of work performed and the minority and female population and labor force in its area available for recruitment. The affirmative action plans are used not only to measure progress in the hiring and promotion of women and racial minorities, but also to set annual Equal Employment Opportunity performance goals for managers.

In spite of a decline in total Borden employment in 1975, women and minority groups increased their percentages in the higher-level job categories. Minority participation in management-level positions rose substantially, and a greater number of women entered higher levels of finance, product development, and marketing.

Under the company's minority purchasing program, purchases from minority vendors in 1975 increased to more than $11 million. Profit centers are now required to report quarterly on such purchases, and the corporate purchasing department has set up special procedures for handling and referring minority vendors soliciting Borden business.

The company expanded its activities with minority media and advertising agencies. A portion of the company's group life insurance business was placed with a black-owned insurance company early in 1976. During the year, Borden became one of the first national corporations to open an account with The First Women's Bank, in New York City, the first bank to be owned and operated primarily by women.

The Borden Foundation, Inc., in addition to its many contributions to health-care programs, United Way campaigns, and primary and secondary education projects, will sponsor scholarships in 1976 for disadvantaged minority students in the fields of journalism, accounting, food science and nutrition, and engineering.

More than 50 high-volume "high cube" trailers, designed to carry light but bulky loads, were added to the Borden truck fleet during the year.

An inspector from the Borden Quality Assurance Department visits one of the public warehouses storing the company's dry grocery line. Public warehouses must meet the same sanitation requirements imposed by the department on Borden plants.

Borden purchases from minority vendors increased again in 1975. Above, Lawrence Auls, a founder of Mainway Wholesale Supplies, Inc., an electrical distributor in Columbus, Ohio, visits one of his customers, the Borden Lustro-ware plant. Mainway, founded with $630, now has 15 full-time employees and offices in Columbus, Cleveland, and Atlanta.

EMPLOYEE RELATIONS—Over 80 labor contracts were settled by the company in 1975. The average increase in labor costs spread over all contracts was competitive with national averages for manufacturing concerns in the United States and Canada. Borden had fewer work stoppages in 1975 than in any recent year; where stoppages did occur, they were either of short duration or had a minimal impact on operations.

To help relieve the effect of inflation on long-time retirees, pension benefits for employees who retired prior to July, 1972, were increased effective Jan. 1, 1976. Medical benefits for certain retired employees were also improved as of that date.

A new corporate security department was formed during the year. It assists operations in protecting company assets from criminal and other related losses.

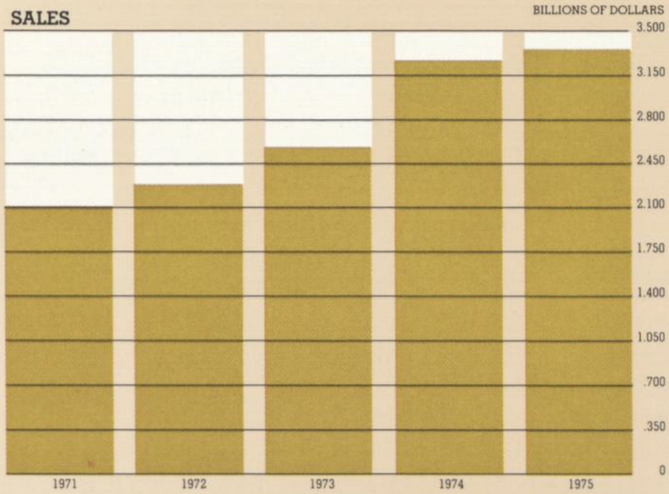
CHANGES IN OFFICERS AND DIRECTORS—Joseph E. Madigan was elected a corporate Vice President effective Jan. 1, 1976. He continues as Treasurer, the position he has held since joining Borden in October, 1968.

Patricia J. Carry was elected to the Board of Directors in February, 1976. Miss Carry is vice president of The Edna McConnell Clark Foundation, a trustee of Cornell University, chairman of the Investor Responsibility Research Center, Inc., and a director of several other major corporations. Shelton Fisher and E. R. Rowley resigned from the Board in January, 1976, at which time the number of Directors required by the By-Laws was changed to 11 members.

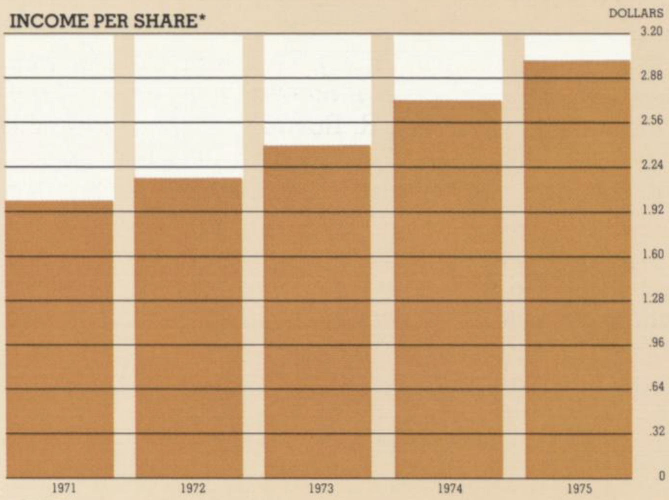
The company recently developed a lower priced vinyl coated paper wallcovering, which could be considered to compete with interior paint. Messrs. Fisher and Rowley were also directors of N L Industries, Inc., which has a paint division. The Federal Trade Commission raised the question whether these facts constituted a conflict under applicable statutes. The relative significance of the matter is considered minimal, but in order to eliminate any possible question as to the suitability of the same person serving on the boards of directors of both companies, appropriate resignations were made.

Financial Review and Management Analysis

SALES

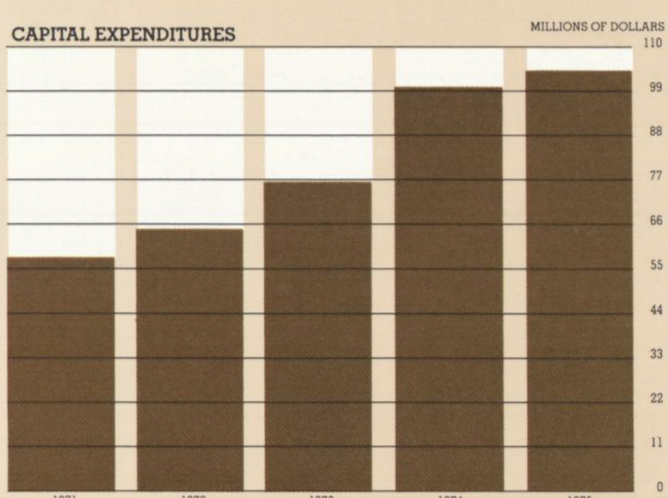


INCOME PER SHARE*



*PRIMARY

CAPITAL EXPENDITURES



SALES AND EARNINGS

Sales, net income and primary earnings per share in 1975 were the highest in the Company's history. Sales were $3,367,243,000 in 1975 representing an increase of 3.1% over the 1974 record of $3,264,502,000. The 1974 amount represented an increase of 27.8% over 1973; also a record sales year.

Net income increased 10.8% to $92,884,000 from the previous high of $83,845,000 in 1974. Primary earnings per share increased 10.7% to $3.01 from the previous high of $2.72. Fully diluted to reflect two outstanding convertible Eurodollar debenture issues, earnings per share were $2.88 compared with $2.61 in 1974. Net income in 1974 was 14.9% over the record level of 1973 and primary earnings per share were 14.8% over 1973.

Interest expense increased both in 1975 and 1974 primarily because of the $100 million in 30 year 8½ percent sinking fund debentures issued in early 1974.

Pretax income amounted to $170,484,000, up 7.3% from $158,845,000 in 1974. Federal, foreign, and state and local income taxes totaled $77,600,000 compared with $75,000,000 in 1974. The investment tax credit was $5,500,000 in 1975 against $3,700,000 in the previous year. Pretax income increased 17.2% in 1974 as compared to 1973. Income taxes in 1973 were $62,600,000 and the investment tax credit aggregated $3,400,000.

CURRENT ASSETS AND LIABILITIES

During the year, strenuous efforts were continued to improve the Company's liquidity position. These activities included the continuation of a drive to improve our receivable position and to monitor closely the financial conditions of our customers. Additional efforts were undertaken to maintain stringent inventory controls at all levels of the Company. With the enactment of these programs and other cash management techniques, the Company has been able to minimize its short-term borrowings and to maintain a strong liquidity position.

CAPITAL EXPENDITURES

Capital expenditures for new and improved facilities amounted to $104,079,000 as compared to $100,243,000 in 1974. Depreciation, depletion and amortization aggregated $51,594,000 against $50,237,000 in the previous year. In addition, leases, primarily for equipment such as motor vehicles and ice cream cabinets, were effected for $23,076,000 and $18,771,000 in 1975 and 1974, respectively.

DIVIDENDS

The Company completed 77 years of uninterrupted dividends, dating back to its incorporation in 1899, with the payment in December of the 263rd consecutive dividend on Common Stock.

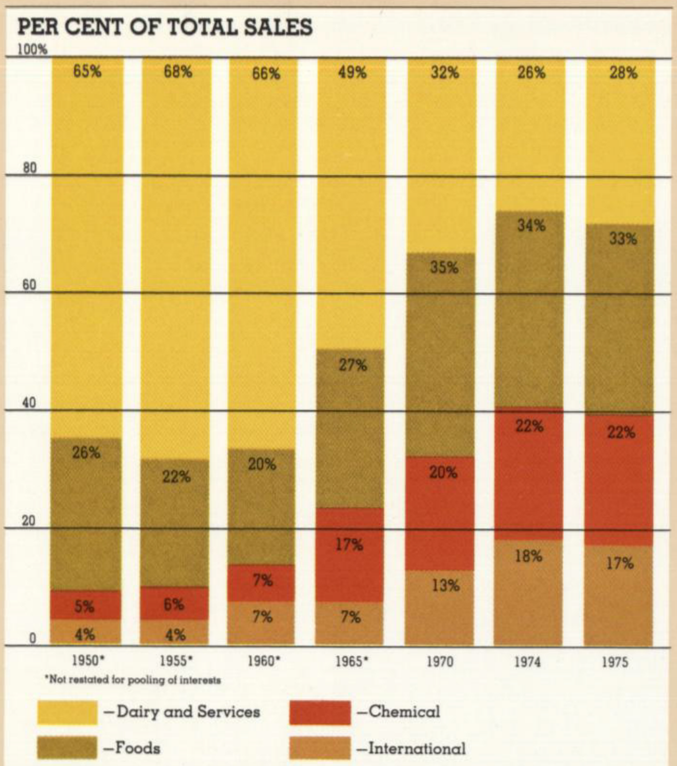
Cash dividends of $39,901,000 were paid on the Company's capital stock in 1975, compared with $38,278,000 in 1974. Dividends on Common Stock were $39,455,000 at $1.30 per share; on Preferred Stock-Series A, $102,000 at 65 cents per share and on Preferred Stock-Series B, $344,000 at $1.32 per share.

On December 15, all of the 157,584 outstanding Series A Preferred Shares were converted to Common Stock on a one-for-one basis. The Series B Preferred is convertible at any time into Common Stock at the rate 1.1 shares of Common for each share of Preferred.

TRENDS BY BUSINESS AREA

A summary of sales and operating income by the Company's four major operating divisions is shown on the following page.

The Foods Division's sales declined 1.2% in 1975 as compared to 1974 and operating income as a percent of sales dropped from 5.4% in 1974 to 3.1% in the current year. Total income of the division was significantly reduced in 1975 by a decline in the sugar market and sugar consumption as discussed on page 8. Apart from the sugar refining operations the Division did show an improvement in sales, operating income and margins. Operating income and margins im-



proved on products other than sugar in 1975 principally because of cost cutting moves and stepped-up efforts to increase market penetration and geographical distribution. In 1974 higher income from sugar operations helped balance added costs borne by sugar using operations. 1974 also benefited from higher volume of sales of brand name items, but margins were lowered because of federal restrictions on price increases in force during a portion of the year and because of the unprecedented rise in prices for raw materials, packaging and energy costs.

The Dairy and Services Division's sales increased 9.1% over 1974 and operating income increased 5.5%. Margins in this Division suffered in 1974 because of rapidly escalating costs and because of federal restrictions on price increases in effect during a portion of 1974. During 1975 operating income benefited from a return to more normal margins, as cost increases—particularly for fuel and packaging materials—slowed from the pace of a year earlier and from economy efforts undertaken by the Division. Intensive campaigns begun in 1974 to monitor cost levels and safety, combined with improved technology through plant modernization and improved distribution methods, have been carried into 1975 and resulted in improved efficiency. Overall division margins were adversely affected in 1975 by costs associated with the withdrawal from milk business in the Chicago area.

In the Chemical Division, sales in 1975 were 4.1% higher than in 1974 and operating income increased 23.4%. Margins improved primarily because of higher volume and profits in the fertilizer operations and an outstanding year in the petrochemical operations at Geismar, La. The petrochemical complex produces such basic chemicals as ammonia, urea, methanol and vinyl acetate monomer for supplying other Borden Chemical operations and for sales to industrial customers. Profits were also aided by cost efficiencies and improved productivity. Sales and operating margins in 1974 improved substantially over 1973 because of increased volume and improved productivity in all areas, especially in fertilizer and industrial chemical products and improved market position in Resinite film. Margins in both 1975 and 1974 improved relative to earlier years because of increased demand for principal products.

The International Division's operating income of $50,232,000 represents an increase of 29.1% on a sales increase of 1.7%. Generally all facets of the division contributed to this growth. Major contributors to this increase were the pasta and chemical operations in Brazil, worldwide sales of whole milk powder, food and dairy operations in Canada and improved Export operations. Improved sales and earnings in 1974 compared to 1973 were primarily the result of improved export sales such as industrial chemicals, petrochemicals, fertilizers and branded consumer products.

For additional details, see pages 8 through 28.

FIVE YEAR COMPARISON OF SALES AND OPERATING INCOME BY BUSINESS AREA (DOLLARS IN THOUSANDS)*

SALES:	1975		1974		1973	1972	1971
Foods	$1,111,789	33%	$1,125,526	34%	$ 821,441	$ 743,570	$ 730,313
Dairy and Services	937,895	28	859,936	26	725,068	656,263	630,256
Chemical	730,163	22	701,476	22	559,973	471,057	429,081
International (including exports)	587,396	17	577,564	18	447,512	378,134	314,138
Total	$3,367,243	100%	$3,264,502	100%	$2,553,994	$2,249,024	$2,103,788
OPERATING INCOME:							
Foods	$ 34,008	16%	$ 60,292	28%	$ 52,540	$ 53,393	$ 50,634
Dairy and Services	34,983	16	33,164	16	29,973	28,239	33,527
Chemical	99,067	45	80,266	38	52,899	40,872	34,064
International (including exports)	50,232	23	38,906	18	33,597	29,573	25,920
Total	218,290	100%	212,628	100%	169,009	152,077	144,145
Other income and expenses not allocable to operations, and taxes	(125,406)		(128,783)		(96,047)	(84,600)	(82,497)
NET INCOME	$ 92,884		$ 83,845		$ 72,962	$ 67,477	$ 61,648

*Prior year data has been restated to reflect the 1975 shift of organizational responsibility for bottled water, bottled carbonated beverages, and manufactured milk based products for the industrial trade from the Foods Division to the Dairy and Services Division, and for seafood fishing and processing from the Foods Division to the International Division.

FIVE-YEAR FINANCIAL SUMMARY

BORDEN, INC.

(All dollar and share figures in thousands—except market price and per share statistics)

	1975	1974	1973	1972	1971
SUMMARY OF EARNINGS					
Net sales	$3,367,243	$3,264,502	$2,553,994	$2,249,024	$2,103,788
Cost of goods sold	$2,732,007	$2,677,179	$2,073,720	$1,821,141	$1,710,700
Interest expense	$ 26,364	$ 25,636	$ 17,724	$ 16,325	$ 16,204
Income taxes	$ 77,600	$ 75,000	$ 62,600	$ 57,442	$ 52,418
Net income	$ 92,884	$ 83,845	$ 72,962	$ 67,477	$ 61,648
Net income per common share and equivalent — Primary	$3.01	$2.72	$2.37	$2.18	$1.99
Fully diluted	$2.88	$2.61	$2.28	$2.13	$1.98
Dividends per—Common share	$1.30	$1.25	$1.20	$1.20	$1.20
Preferred series A share	$ .65	$ .625	$ .60	$ .60	$ .60
Preferred series B share	$1.32	$1.32	$1.32	$1.32	$ .78
Average number of common shares and equivalents outstanding during the year for calculation of—					
Primary earnings per share	30,886	30,827	30,810	30,946	30,920
Fully diluted earnings per share	32,882	32,823	32,806	32,288	31,401
Percent of net income to sales	2.8%	2.6%	2.9%	3.0%	2.9%
FINANCIAL STATISTICS					
Capital expenditures	$ 104,079	$ 100,243	$ 76,488	$ 64,533	$ 58,024
Inventories	$ 407,065	$ 489,403	$ 330,880	$ 284,475	$ 265,680
Property, plant and equipment	$ 583,481	$ 566,610	$ 519,006	$ 482,296	$ 468,105
Depreciation, depletion and amortization	$ 51,594	$ 50,237	$ 46,099	$ 43,899	$ 42,965
Current assets	$ 864,747	$ 883,285	$ 715,673	$ 685,099	$ 623,292
Current liabilities	$ 391,255	$ 432,987	$ 369,291	$ 306,276	$ 256,160
Working capital	$ 473,492	$ 450,298	$ 346,382	$ 378,823	$ 367,132
Current ratio	2.2:1	2.0:1	1.9:1	2.2:1	2.4:1
Long-term debt	$ 335,382	$ 340,800	$ 235,297	$ 250,365	$ 239,676
Debt-to-equity percent	39%	42%	31%	34%	34%
Shareholders' equity	$ 863,560	$ 810,431	$ 764,817	$ 731,383	$ 701,440
Liquidating value of preferred stock	(7,173)	(10,817)	(17,525)	(26,566)	(29,258)
Common shareholders' equity	$ 856,387	$ 799,614	$ 747,292	$ 704,817	$ 672,182
Equity per common share at year end	$28.05	$26.35	$24.87	$23.68	$22.63
SHAREHOLDERS' DATA					
Outstanding shares at year end—					
Common	30,526	30,342	30,045	29,765	29,707
Preferred series A		158	315	473	473
Preferred series B	248	265	388	592	686
Market price of common stock—					
At year end	$27	$20	$21	$32	$28
Range during year	$21–29	$15–25	$19–32	$25–32	$24–30
Number of common shareholders	67,167	67,243	67,552	67,333	70,916
EMPLOYEES' DATA					
Payroll	$ 420,600	$ 403,800	$ 374,600	$ 369,400	$ 357,000
Average number of employees	42,100	46,700	46,500	46,900	48,000

CONSOLIDATED STATEMENTS OF INCOME

BORDEN, INC.

Year Ended December 31	1975	1974
NET SALES	$3,367,243,343	$3,264,502,125
COSTS AND EXPENSES:		
Cost of goods sold	2,732,006,596	2,677,178,840
Marketing, distribution and administrative expenses	451,416,790	409,463,497
Equity in affiliates, interest income, royalties, net	(13,027,407)	(6,621,395)
Interest expense	26,363,669	25,636,331
Income taxes	77,600,000	75,000,000
	3,274,359,648	3,180,657,273
NET INCOME	$ 92,883,695	$ 83,844,852
Average number of common shares and equivalents outstanding during the year	30,885,755	30,826,916
NET INCOME PER SHARE		
Primary	$ 3.01	$ 2.72
Fully diluted	2.88	2.61
CASH DIVIDENDS PER COMMON SHARE	1.30	1.25

See accompanying Notes To Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

BORDEN, INC.

Year Ended December 31	1975	1974
FINANCIAL RESOURCES PROVIDED		
Operations:		
Net Income	$ 92,883,695	$ 83,844,852
Depreciation, depletion and amortization	51,593,878	50,236,884
Deferred income taxes	3,100,000	5,900,000
Other	6,354,608	9,963,456
Total provided from operations	153,932,181	149,945,192
Property disposals	22,178,057	11,023,222
Proceeds from debt financing	6,382,455	109,233,152
Total Resources Provided	182,492,693	270,201,566
FINANCIAL RESOURCES APPLIED		
Cash dividends	39,900,688	38,277,822
Reduction in long-term debt	6,902,381	11,560,073
Capital expenditures	104,078,531	100,243,498
Purchases of businesses, net of working capital acquired		8,620,128
Other	8,417,126	7,584,135
Total Resources Applied	159,298,726	166,285,656
Increase in Working Capital	$ 23,193,967	$103,915,910
Details of increase (decrease) in working capital:		
Cash and certificates of deposit	$ 48,207,122	$ 6,654,342
Accounts receivable	15,592,650	2,435,077
Inventories	(82,337,701)	158,522,748
Current maturities of long-term debt	4,935,860	7,845,332
Accounts and drafts payable	4,536,982	(26,965,578)
Taxes, payrolls and other liabilities	32,259,054	(44,576,011)
Increase in Working Capital	$ 23,193,967	$103,915,910

See accompanying Notes To Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

BORDEN, INC.

ASSETS

December 31	1975	1974
Current Assets		
Cash (including time deposits of $45,816,000 in 1975 and $17,835,000 in 1974)	$ 126,322,119	$ 83,038,997
Certificates of deposit	21,924,000	17,000,000
Accounts receivable (less allowance for doubtful accounts— $10,887,000 in 1975 and $8,778,000 in 1974)	309,436,314	293,843,664
Inventories:		
Finished and in process goods	280,318,792	296,708,437
Raw materials and supplies	126,746,217	192,694,273
Total Current Assets	864,747,442	883,285,371
Investments and Other Assets		
Investments in and advances to affiliated companies (at cost plus equity in undistributed income)	36,428,933	23,756,744
Miscellaneous investments and receivables (at cost or less)	13,157,138	16,211,414
Deferred charges	21,184,687	22,529,314
	70,770,758	62,497,472
Property and Equipment		
Land	37,073,341	41,033,170
Buildings	261,641,276	266,181,146
Machinery and equipment	710,716,185	679,409,501
	1,009,430,802	986,623,817
Less Accumulated Depreciation	(425,949,622)	(420,014,303)
	583,481,180	566,609,514
Intangibles Resulting from Business Acquisitions	137,472,304	146,870,981
	$1,656,471,684	$1,659,263,338

See accompanying Notes To Consolidated Financial Statements

LIABILITIES AND SHAREHOLDERS' EQUITY

December 31	1975	1974
Current Liabilities		
Current maturities of long-term debt	$ 5,753,889	$ 10,689,749
Accounts and drafts payable	245,271,797	249,808,779
Taxes, payrolls and other liabilities	140,229,524	172,488,578
Total Current Liabilities	391,255,210	432,987,106
Long-Term Debt	335,381,638	340,799,664
Deferred Income Taxes	60,158,072	57,058,072
Other Long-Term Liabilities	3,215,191	4,862,216
Minority Interests in Consolidated Subsidiaries	2,901,490	13,125,692
SHAREHOLDERS' EQUITY		
Capital Stock		
Preferred Stock—no par value		
Authorized 10,000,000 shares		
Issued Series A Convertible—		
None and 157,584 shares respectively		590,940
Issued Series B Convertible—248,366 shares and 265,434 shares respectively (involuntary liquidating value of $7,172,810 or $28.88 per share at December 31, 1975)	1,024,510	1,094,915
Common Stock—$3.75 par value		
Authorized 60,000,000 shares		
Issued 30,527,184 shares and 30,349,317 shares respectively	114,476,940	113,809,939
Paid-In Capital	184,008,408	184,057,713
Retained Earnings	564,074,192	511,091,185
	863,584,050	810,644,692
Less Common Stock in Treasury (at cost) — 846 shares and 7,558 shares respectively	(23,967)	(214,104)
Total Shareholders' Equity	863,560,083	810,430,588
	$1,656,471,684	$1,659,263,338

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

BORDEN, INC.

FOR THE TWO YEARS ENDED DECEMBER 31, 1975

	CAPITAL STOCK ISSUED					
	PREFERRED SERIES A	PREFERRED SERIES B	COMMON	PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK
Balance, December 31, 1973	$1,181,876	$1,602,863	$112,918,819	$185,472,962	$465,524,155	$1,884,114
Net income					83,844,852	
Cash dividends—						
Common stock					(37,644,269)	
Preferred series A					(196,979)	
Preferred series B					(436,574)	
Preferred series A stock converted	(590,936)		590,936			
Preferred series B stock converted		(507,948)	300,184	(1,361,086)		(1,568,837)
Treasury stock issued for exercised stock options				(54,163)		(101,173)
Balance, December 31, 1974	590,940	1,094,915	113,809,939	184,057,713	511,091,185	214,104
Net income					92,883,695	
Cash dividends—						
Common stock					(39,454,764)	
Preferred series A					(102,430)	
Preferred series B					(343,494)	
Preferred series A stock converted	(590,940)		590,940			
Preferred series B stock converted		(70,405)	70,380			
Common stock issued for exercised stock options			5,681	25,445		
Treasury stock issued for exercised stock options				(74,750)		(190,137)
Balance, December 31, 1975		$1,024,510	$114,476,940	$184,008,408	$564,074,192	$ 23,967

See accompanying Notes To Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Company, as summarized below, are in conformity with generally accepted accounting principles.

Principles of Consolidation — The consolidated financial statements include the accounts of Borden, Inc. and all subsidiaries, after elimination of material intercompany accounts and transactions. The Company's proportionate share of the net earnings of unconsolidated 20% to 50% owned companies is included in income currently. The carrying value of investments in 20% to 50% owned companies approximates the underlying net assets thereof. Investments of less than 20% ownership are carried at cost.

The accounts of foreign subsidiaries are translated at current year-end rates of exchange for current assets other than inventories, long-term receivables, and all liabilities other than deferred income taxes. Inventories, property and equipment and accumulated depreciation, non-current assets other than long-term receivables, and deferred income taxes are translated at historical rates of exchange. Income accounts are generally translated at current year average rates of exchange, except those revenue and expense items which relate to assets or liabilities translated at historical rates. Exchange gains and losses are included in net income under this policy, whereas in prior years they were credited or charged to the Reserve for Foreign Operations which had been established for this purpose. This policy is in agreement with the Statement of Financial Accounting Standards No. 8.

The excess cost of investments over net tangible assets of businesses acquired are carried as Intangibles in the Consolidated Balance Sheets. It is the Company's policy to carry intangibles arising prior to November, 1970 at cost until such time as there may be evidence of diminution in value or the term of existence of such value becomes limited. Intangibles arising after October, 1970 are being amortized over a forty-year period.

Inventories — Inventories are stated at the lower of cost or market. Cost is determined generally on the average cost and first-in, first-out methods.

Property and Equipment — Land, buildings and machinery and equipment are carried at cost.

Depreciation is recorded on the straight-line basis by charges to costs and expenses at rates based on the estimated useful lives of the properties (average rates for buildings — 3%; machinery and equipment — 7%).

Major renewals and betterments are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts. Gains or losses from normal retirements and disposals are credited or charged to accumulated depreciation, while gains and losses from other retirements and disposals are credited or charged to income.

The Company leases certain plant and equipment under both operating and financing lease agreements (leases covering 75% of economic life of related assets or which reasonably assure lessor recovery of his investment). Certain leases which are in substance installment purchases of the related assets have been capitalized, with the corresponding obligations carried in long-term debt. Payments on leases covering plant and equipment which the Company does not intend to purchase at the expiration of the lease are charged to expense as incurred, whether represented by an operating lease or a financing lease agreement.

Income Taxes—The provision for income taxes includes federal, foreign and state and local taxes currently payable and deferred taxes arising from timing differences between income for financial statement and income tax purposes. These timing differences principally result from additional deductions available through the use of accelerated methods of depreciation for tax purposes.

The accumulated differences between taxes recognized for financial reporting purposes and those payable to date are shown as deferred income taxes in the Consolidated Balance Sheets.

Investment tax credits are applied as reductions of income taxes in the year earned.

United States income taxes have not been provided on undistributed earnings of foreign subsidiaries or on the earnings of a Domestic International Sales Corporation (DISC) that are eligible for tax deferral because the Company presently plans to reinvest such earnings indefinitely.

Retirement Plans — Charges to operations under the Company's retirement plans, which cover those employees who are not members of collective bargaining units as well as certain employees who are members of such units, include current service costs, and amortization of prior service costs, generally over a thirty-year period. It is the Company's policy to fund amounts equal to pension costs accrued.

Development and Promotion Expenses — Research and development expenditures are expensed as incurred as are advertising and promotion expenditures.

Earnings Per Share — Primary earnings per share are computed based on the weighted average number of shares of Common Stock and Equivalents (Series A and B Convertible Preferred Stocks and Stock Options) outstanding during the year of computation.

Fully diluted earnings per share are computed based on the weighted average number of shares of Common Stock and Equivalents assumed outstanding during the year as if the Convertible Debentures had been converted at the beginning of the period and after giving effect to the elimination of interest expense, less income tax effect, applicable to the Convertible Debentures.

NOTE 2 — FOREIGN SUBSIDIARIES

After translation into United States dollars, undistributed net assets of foreign subsidiaries included in the consolidated financial statements were $158,000,000 at December 31, 1975 compared to $151,000,000 at December 31, 1974. Net sales and operating income of international operations, including exports, are presented in the Financial Review and Management Analysis section on page 30.

Realized and unrealized net exchange losses aggregating $1,047,000 were charged against income in 1975. Such losses aggregated $5,681,000 in 1974, of which amount $5,401,000 was charged to the Reserve for Foreign Operations and $280,000, the amount by which the losses exceeded the reserve balance, was charged against income. Concurrent with the change in the method of translating foreign currency financial statements adopted January 1, 1974, the cumulative effect thereof, $5,657,000, was charged to the Reserve for Foreign Operations. Retroactive allocation of the effect of the change would not materially affect prior years' results of operations.

NOTE 3 — LONG-TERM DEBT, LEASE OBLIGATIONS AND COMMITMENTS

Long-term debt outstanding at December 31, 1975 and 1974 is as follows (dollars in thousands):

	1975		1974	
	Long-Term	Due Within One Year	Long-Term	Due Within One Year
Sinking Fund Debentures				
2⅞%, due 1981	$ 30,000		$ 31,250	
7¾%, due 1984	875		1,000	$ 75
4⅜%, due 1991	30,000	$2,000	32,000	2,000
5¾%, due 1997	75,000		75,000	
8½%, due 2004	100,000		100,000	
Debentures repurchased	(3,098)	(1,808)	(4,348)	(2,000)
Promissory Notes				
5⅜%, due 1981	3,700	800	4,500	800
8¼%, due 1985	11,436		11,790	
7⅝%, due 1986	7,624		7,860	
Other borrowings	19,845	2,714	19,523	5,012
Convertible Debentures				
6¾%, due 1991	30,000		30,000	
5%, due 1992	30,000		30,000	
Principal amount of capitalized leases		2,048	2,225	4,803
	$335,382	$5,754	$340,800	$10,690

The 6¾% Convertible Debentures (a Eurodollar obligation) are convertible into Common Shares of Borden, Inc. at $28.75 a share and are redeemable at the Company's option except in certain defined circumstances. The redemption price will be equal to the face amount plus annually decreasing premiums to 1986.

The 5% Convertible Debentures (a Eurodollar obligation) are convertible into Common Shares of Borden, Inc. at $31.50 a share and are redeemable at the Company's option except in certain defined circumstances. The redemption price will be equal to the face amount plus annually decreasing premiums to 1987.

Aggregate maturities of long-term debt, principal payments on capitalized leases and minimum annual rentals on other leased properties are as follows (dollars in thousands):

	Long-Term Debt**	Capitalized Leases	Minimum Rentals: Operating Leases	Minimum Rentals: Financing Leases
1976	$ 3,706	$ 2,048	$ 11,199	$ 18,220
1977	4,667		9,783	16,103
1978	9,580		8,602	13,487
1979	8,801		7,377	11,214
1980	9,597		6,414	8,010
1981-1985*	77,641		24,088	13,988
1986-1990*	51,432		2,654	122
1991-1995*	101,313		247	
1996 and beyond*	72,351		283	

*Figures represent combined totals for all years.
**Net of Debentures repurchased.

The present value of non-capitalized financing leases, at weighted average interest rates of approximately 7.2% and 7.1% for 1975 and 1974, respectively, aggregated $67,000,000 and $61,700,000 at December 31, 1975 and 1974, respectively. These leases primarily cover transportation equipment ($41,000,000) and retail and office space ($26,000,000). Net income would be impacted by less than 1% for 1975 and 1974 if these leases were capitalized rather than being accounted for as leases.

The Company has unused lines of credit for short-term financing needs, aggregating approximately $145,000,000 at December 31, 1975, with interest rates approximating the prime rate in effect at date of use.

The Company was guarantor of loans aggregating approximately $21,000,000 at December 31, 1975.

Pursuant to the arrangements covering the above lease agreements, lines of credit and certain loan guarantees, the Company has agreed to maintain minimum average cash balances aggregating approximately $17,000,000 with various commercial banks. The Company attributes no cost to such arrangements as these amounts do not exceed balances which would be required for normal operating needs.

NOTE 4 — INCOME TAXES

A comparative analysis of the provisions for income taxes follows:

	1975	1974
Currently payable		
United States	$59,800,000	$55,100,000
Investment tax credit	(5,500,000)	(3,700,000)
Foreign	10,500,000	8,500,000
State and local	9,700,000	9,200,000
	74,500,000	69,100,000
Deferred		
United States	2,400,000	3,200,000
Foreign	700,000	2,700,000
	3,100,000	5,900,000
	$77,600,000	$75,000,000

The deferred provision represents the tax effect of the excess of tax over book depreciation.

Total tax expense represents effective tax rates of 45.5% and 47.2% for 1975 and 1974, respectively, compared to the United States statutory tax rate of 48%. The lower effective tax rates are attributable to the investment tax credit plus other offsetting items such as the differences between foreign and United States rates, federal tax benefits of state and local taxes, qualified export benefits and statutory rate differences on capital gains.

The cumulative amount of foreign and DISC earnings on which United States taxes have not been provided aggregated approximately $38,000,000 at December 31, 1975, exclusive of those amounts which if remitted would result in no tax by utilization of available foreign tax credits.

NOTE 5 — RETIREMENT PLANS

The charges to operations under the Company's retirement plans were $10,400,000 in 1975 and $8,300,000 in 1974. Higher costs in 1975 are primarily the result of improved benefits under the Company's retirement plans which were effective July 1, 1974. The actuarially computed value of vested benefits under these plans as of January 1, 1975 exceeded the total pension fund and balance sheet accruals by approximately $40,300,000. The effect of bringing these plans into compliance with the Employee Retirement Income Security Act, as of January 1, 1976, was not material.

Operations were charged approximately $4,800,000 in 1975 and $5,000,000 in 1974 for payments to pension trusts on behalf of certain employees covered by collective bargaining units who have not elected to participate in the Company's plans and of retirement allowances paid to former employees under arrangements in effect prior to the inception of the present plans.

NOTE 6 — SHAREHOLDERS' EQUITY

In December, 1975, the remaining 157,584 outstanding Preferred Stock — Series A shares were converted into an equal number of common shares.

Each of the 248,366 shares of Preferred Stock—Series B, bears an annual cumulative dividend of $1.32, is convertible into 1.1 common shares, and is redeemable at the Company's option, beginning on July 29, 1976 at $42. Thereafter, the redemption price will be reduced annually by $1 per share until July 29, 1979.

As of January 1, 1975, 435,910 shares of Common Stock of the Company were reserved for unexercised stock options at prices ranging from $6.37 to $30.75 per share. During 1975, options for 149,950 shares were granted at $23.00 per share and options for 47,970 shares expired or were cancelled. Options for 7,581 shares were exercised, at prices ranging from $6.37 to $23.38 per share, leaving 530,309 shares reserved for unexercised options at prices ranging from $18.46 per share to $30.75 per share as of December 31, 1975. In addition, there were 365,205 shares available for future grants at that date.

At December 31, 1975, 273,203 shares were reserved for conversion of Preferred Stock — Series B. In addition, 1,995,859 shares were reserved for issuance upon conversion of the 6¾% and 5% Convertible Debentures discussed in Note 3 and 52,127 shares were reserved pursuant to the Management Incentive Plan.

NOTE 7 — EARNINGS PER SHARE

The average number of Common Shares and Equivalents entering into the calculation of primary and fully diluted earnings per share are as follows:

	1975	1974
Common Shares	30,327,113	30,128,122
Convertible Preferred:		
Series A	144,452	302,035
Series B	285,367	361,595
Stock options and incentive compensation	128,823	35,164
Total for primary calculation	30,885,755	30,826,916
Convertible Debentures:		
6¾%	1,043,479	1,043,479
5%	952,380	952,380
Total for fully diluted calculation	32,881,614	32,822,775

NOTE 8 — SUPPLEMENTAL INCOME STATEMENT INFORMATION

Set forth below is a comparative summary of certain income and expense items, the accounting for which is described in Note 1 (dollars in thousands):

	1975	1974
Equity in net earnings of 20% to 50% owned companies	$ 4,104	$ 13
Depreciation, depletion and amortization	51,594	50,237
Maintenance and repairs	82,930	71,728
Amortization of intangible assets	1,073	1,065
Advertising and promotion	116,149	81,790
Research and development	13,629	11,831
Taxes other than income taxes	46,055	47,899
Rents		
Operating leases	20,188	18,698
Non-capitalized financing leases	17,414	15,822
Royalties	3,775	5,639

REPORT OF INDEPENDENT ACCOUNTANTS

Price Waterhouse & Co.

SIXTY BROAD STREET, NEW YORK, NEW YORK 10004 212/422-6000

February 24, 1976

Board of Directors and
Shareholders of Borden, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and changes in financial position present fairly the financial position of Borden, Inc. and its subsidiaries at December 31, 1975 and 1974, the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

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